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Asia	Sch. 18	Indonesia	Rp 2500	Peru	Soles 100
Bahamas	US\$ 1.00	Italy	L. 1000	S. Africa	Rand 100
Bahia	US\$ 1.00	Japan	Yen 100	Singapore	S\$ 1.00
Canada	US\$ 1.00	Kenya	Shs 100	Spain	Pes 100
Cyprus	US\$ 1.00	Laos	US\$ 1.00	Switzerland	Sfr 100
Dominican	US\$ 1.00	Lebanon	US\$ 1.00	Taiwan	NT 100
Egypt	US\$ 1.00	Lithuania	US\$ 1.00	Thailand	US\$ 1.00
France	US\$ 1.00	Madagascar	US\$ 1.00	Turkey	US\$ 1.00
Germany	US\$ 1.00	Malawi	US\$ 1.00	U.A.E.	US\$ 1.00
Greece	US\$ 1.00	Mali	US\$ 1.00	U.S.A.	US\$ 1.00
Hong Kong	US\$ 1.00	Morocco	US\$ 1.00		
India	US\$ 1.00	Nepal	US\$ 1.00		
		Philippines	US\$ 1.00		

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

Friday February 8 1985

No. 29,545

D 8523 B

President's address  
draws mixed  
response, Page 4

World news

Business summary

## Reagan focuses on tax reform

President Ronald Reagan appeared to raise fundamental reforms of the U.S. income tax system to the top of his domestic economic policy agenda in his State of the Union address, raising more doubts about the depth of his commitment to the call for painful action to cut the federal budget deficit.

Republican leaders in Congress, who are facing the prospect of piling unpopular budget cuts, promptly registered their dismay with the President's decision not to provide more support for the budget deficit reduction task.

By concentrating on his economic record and on the popular cry for tax reform, Mr Reagan was able to strike an economic policy theme which fitted neatly into his call for a "second American revolution."

## Madrid resignations

Two senior Spanish Foreign Ministry officials resigned after their names were linked to a scandal over the channelling of secret funds to Switzerland. Page 2

## UK miners' plea fails

Britain's National Union of Mine-workers executive failed to persuade the National Coal Board to reopen negotiations. Page 8

## Libya four return

The four British detainees released by Libya flew into London from Tripoli to an emotional welcome.

## Takeshita target

Japanese Finance Minister Noburo Takeshita confirmed that he was a contender to become the country's Prime Minister. Page 3

## Chernenko 'ill'

The Soviet daily newspaper Pravda said President Konstantin Chernenko was ill, citing his recent reports about the state of the 73-year-old Kremlin leader's health. Page 2

## S. Korea arrests

South Korean police put 20 prominent supporters of opposition leader Kim Dae-jung under house arrest and built a metal fence around his home ready for his return from exile in the U.S. today. Page 3

## Swedish vote

Sweden's parliament will hold a vote of confidence today in Foreign Minister Lemert Bodstrom, whose remarks have raised questions about the Government's commitment to official security policy. Page 2

## Extradition sought

Italy has asked Bulgaria to extradite Turkish businessman Bekir Celenk on charges of plotting to kill Pope John Paul in 1981.

## Jobs call rejected

West German Government rejected opposition calls for urgent action to bring down unemployment, which last month reached a record 2.6m, of 10.6 per cent of the workforce. Page 2

## Beirut hijack ends

Cyprus agreed to free two jailed Lebanese in return for the release of a Cyprus Airways Boeing 747 and the crew of nine seized by four gunmen at Beirut airport.

## Yugoslavs jailed

Three Yugoslavs of Albanian origin were sentenced in Kosovo province to one to 12 years jail for anti-state activities and espionage.

## Italian flats collapse

At least 30 people were killed when a six-storey block of flats collapsed in Castellana, southern Italy.

## US buyers keep bourses at peaks

EUROPEAN bourses remained at record high levels, with strong U.S. demand again seen for many issues. In Amsterdam, the ANP-CBS General Index advanced 0.9 to 199.4, the Zurich Swiss Bank Industrial Index added 2.1 to 418.7 and the Indicateur de Tendence in Paris was 0.9 higher at 198.2. Further records were set in Milan, Oslo and Vienna.

WALL STREET: The Dow Jones Industrial average closed up 0.49 at 1,280.08. Section III

TOKYO was boosted by persistent buying of biotechnology and incentive-backed issues. The Nikkei Dow market average was up 73.63 to 11,940.80. Section III

LONDON gilts surged on institutional support, while equities finished firmer. The FT Ordinary Index closed 5.9 higher at 982.2. Section III

STERLING was firm in London, rising 47 points against the dollar to close at \$1.1185. It also advanced to DM 3.6225 (DM 3.50). FF 11.055 (FF 10.95). SwFr 3.0625 (SwFr 3.05). The pound's exchange rate index rose to 72.0 from 71.5. In New York it was \$1.1125. Page 37

DOLLAR was also firm in London, rising to DM 3.245 (DM 3.215), a record FF 9.8025 (FF 9.8375), SwFr 2.76 (SwFr 2.737) and Y280.65 (Y280.45). On Bank of England figures, the dollar's exchange index rose to a record 149.2 from 148.7. In New York it was DM 3.2455, FF 9.8985, SwFr 2.759 and Y280.65. Page 37

U.S. MONEY SUPPLY: M1 fell \$1.5bn in the week ending January 28.

GOLD lost \$1 on the London bullion market to close at \$302. It was also lower in Zurich at \$301.85. In New York the COMEX February settlement was \$299.40. Page 36

ISRAELI Finance Minister Yitzhak Mordechai will fly to Washington next month to request \$1.5bn aid on top of the \$1.2bn supplied for 1985 and next year's allocation. Page 3

AUSTRALIAN dollar was again under heavy pressure, with the opposition blaming the Hawke Government's alleged weakness in foreign and economic policies. Page 3

BANK OF CANADA pushed up its benchmark bank rate by 58 points to 10.31 per cent - one of the largest increases in the past four years, to reverse a slide in the Canadian dollar. Page 18

BANK OF BOSTON Corp's First National Bank of Boston pleaded guilty of Federal charges of failing to report to the government currency transfers of \$1.2bn in cash to Swiss banks, federal officials said.

BANK OF JAPAN Governor Satoishi Sumita again hinted at the possibility of Japan introducing a Lombard-type interest rate to check the slide of the yen against the U.S. dollar. Page 3

CHARTERHOUSE J. Rothchild UK financial services group, is selling its 29.9 per cent stake in stockbroker Kitcat & Aitken to Orion Royal Bank, the London merchant banking arm of Royal Bank of Canada. Page 19

CHINA's state airline will borrow \$600m from a domestic bank this year to finance its purchase of foreign aircraft, the China News Service said.

KLM, Dutch airline which is 55 per cent state-owned, lifted its net earnings for the first nine months to \$35.5m (\$32.7m) from \$17.8m. Page 19

ALLIED CORPORATION, U.S. chemicals group, increased its net profits last year to \$488m from \$308m on sales which increased 8 per cent to \$2.07bn. Page 19

ROBERT BOSCH, West German electrical goods and car components maker, is to open a factory in the U.S. to manufacture parts for fuel injection systems. Page 20

## UK has tapped business telephone calls to other countries

TELEPHONE conversations of British residents about lawful commercial and currency transactions in other countries have been officially intercepted and tapped by the UK Government on the grounds of "safeguarding the economic well-being of the UK," writes Peter Hildell, Political Editor, in London.

This previously undisclosed aspect of phone-tapping was yesterday revealed in a Government White Paper (policy document), which sets out a new statutory framework for authorising the interception of communications and safeguards against improper interception.

A Bill will be published next week, which is likely to receive its second reading in the House of Commons near the end of the month.

Mr Leon Brittan, the Home Secretary, denied that there was anything improper in the present practice, but argued that it was desirable to establish a clear statutory framework, especially after the judgment by the European Court of Human Rights last August in the Malone case that the UK law did not indicate with reasonable clarity how discretion was exercised.

He stressed that the Conservative Government was not seeking to broaden the scope of existing practices, which were anyway narrower than those specified in the European Convention. The familiar grounds are national security and the prevention and detection of serious crime. In addition the White Paper refers to support of the Government's defence and foreign policies and safeguarding the economic well-being of the UK.

Mr Brittan said that the economic criteria were not new, and he emphasised that interception would only be permissible when it was for the purpose of obtaining information about events outside the country.

Officials refused to give any details, but conversations about currency transactions between London and Switzerland for instance would in theory be covered by the proposal.

The economic criterion was among the points which worried Mr Gerald Kaufman, the opposition Labour Party's home affairs spokesman, who said that his party would scrutinise the proposed legislation in case it "opens the door wider to the expansion of the Big Brother state." He said the rules could be used for party political purposes, giving the examples of taps on the phones of currency speculators or monitoring foreign contacts during the miners' strike.

Legislation proposed by the White Paper would:

- Establish strict criteria by which the Government could authorise the tapping of telephones and interception of mail.
- Establish a five-member tribunal to hear complaints and investigate possible abuses of power by the Government and its officers. The tribunal would have authority to demand compensation payments.
- Make unauthorised interception of telephone calls and mail a criminal offence carrying a prison sentence of up to two years and fines up to £2,000 (\$3,200).

● Appoint a commissioner to scrutinise the operation of the new legislation and to make a public annual report.- Establish strict rules to prevent intercepted information getting into the wrong hands or being abused.

The White Paper showed that 352 wire taps were authorised by the Home Secretary last year; 115 by the Foreign Secretary and 71 by the Secretary of State for Scotland. Page 18

Continued on Page 18

Background, Page 8; Editorial comment, Page 16

## West German doubts on intervention stance of U.S.

BY JONATHAN CARR IN DAVOS

SENIOR West Germany monetary officials are not optimistic that the U.S. will take part in concerted intervention to depress the high-flying dollar on foreign exchange markets, even though the moment for joint action looks propitious.

Finance ministers and central bank governors of the five leading democracies, (the Group of Five), including the U.S., agreed in Washington three weeks ago to a more vigorous policy of joint intervention in the currency markets to curb speculative rises in the dollar.

The officials, speaking on the sidelines at the Davos international management symposium which ended yesterday, said they felt that if the leading industrialised countries - including the U.S. - acted together, they could push back the dollar, which has been increasingly nervous.

A lower dollar, it is noted, would help to improve prospects for U.S. exports, thus easing trade protectionist pressure within the U.S., while cutting the danger of imported inflation in other countries.

The officials say, however, that while they have recently detected some lessening of the strong opposition in the U.S. Administration to currency intervention, they believe there will be little change in practice.

This is because the U.S. feels co-ordinated intervention might induce too strong a dollar slide, stemming the inflow of foreign funds needed to help to finance the huge

federal budget deficit, the officials believe.

The Davos symposium ended with a public discussion centring on the U.S. trade and budget deficits.

Herr Karl-Otto Pöhl, president of the Bundesbank, West Germany's central bank, paid tribute to the benefits that the rest of the world had gained from the strength of the U.S. economic upswing and its import demand.

He also warned, however, that the U.S. was becoming a chronic debtor nation because of the accelerating pace of its debt servicing.

Mr Gerald Corrigan, the newly-appointed president of the Federal Reserve Bank of New York, called for an orderly, step-by-step improvement in the U.S. budget deficit.

Max Wilkerson in London added: After the group of five meeting European and U.S. officials said the agreement represented a step forward from the declaration of the summit powers in Williamsburg, Virginia, in June 1983 when the markets became exceptionally turbulent. Then they agreed to intervene when the markets became exceptionally turbulent.

At the Washington meeting, reference to turbulence or "disorderliness" in the markets was dropped. It was agreed then that the dollar was greatly overvalued and that official intervention might help to prevent it from "overshooting."

U.S. State of the Union speech, Page 4

## Priest's killers get long sentences

By Christopher Bobinski in Warsaw

A POLISH COURT yesterday found four secret police officials guilty of murdering Father Jerzy Popieluszko, the pro-Solidarity priest, and sentenced them to long prison terms.

Former Colonel Adam Pietruszka, 46, found guilty of instigating the murder, was sent to prison for 25 years, as was former Captain Grzegorz Piotrowski, 33, who led the group of three men who kidnapped and killed the priest. Two former lieutenants, Leszek Pekala, 34, and Waldemar Chmielewski, 29, who accompanied Mr Popieluszko on the kidnapping mission, were sentenced to 15 years and 14 years in prison respectively.

The case was the first for more than 25 years in which secret police, in this case from the Interior Ministry's department dealing with the Roman Catholic Church, were put on open trial in Poland.

The six-week-long proceedings were punctuated by bitter attacks on the Church from both the police defendants and the state prosecutors, which were widely publicised in the controlled Polish press. Yesterday, these attacks were loudly echoed in Moscow, with a Tass news agency condemnation of "anti-socialist" and "anti-Soviet" behaviour by Polish priests like the late Father Popieluszko.

In the first authoritative Soviet comment on the Roman trial, the Tass report, printed in the national newspaper Izvestia, complained that the court evidence had shown that many Polish priests "use services of worship in their churches for political ends," and that this was "tolerated" by church leaders.

The three secret policemen killed in the Popieluszko case.

Continued on Page 18

## Mexico aims at \$500m cut in public spending

BY RONALD BUCHANAN IN MEXICO CITY

THE MEXICAN Government has announced an eight-point austerity package to cut \$500m from the public sector's current spending this year, including disposal of 236 state companies.

The package was announced after a meeting on Wednesday of President Miguel de la Madrid and his economic Cabinet. The main reason behind the cuts is believed to be more in serious overspending on last year's budget than in the need to make up for the shortfall in revenue from oil exports. The export price of Mexico's light crude was reduced by \$1.25 a barrel earlier this week.

The Government said in a statement that the aim was to "correct deviations and put the economy back on the right track."

These "deviations," diplomats say, are likely to include a substantial overshooting of the 1984 public spending targets set by the International Monetary Fund (IMF), when the public sector deficit should have been held to 5.5 per cent of gross domestic product.

The IMF agreement included a provision which allowed the deficit to be increased by a further percentage point late in the year if there was little sign of a return to growth.

That contingency money was used, said diplomats, but not to spur growth. Instead it bolstered public utilities which had incurred serious deficits, partly due to considerable underestimation of domestic interest rates at the start of the year.

As a result, central bank officials admit that the budget deficit was more than 7 per cent of GDP in 1984. The final figure could be as high as 8 per cent. The revised public sector deficit figure of 5.1 per cent of GDP, which the IMF ap-

Brazil announced an emergency programme of public spending cuts in an effort to cool overheated inflationary expectations and to meet economic targets set by the International Monetary Fund. The cuts, which will slash Treasury disbursements by 80 per cent over the next two months, come only five weeks before Sr Tancred Neves takes over as Brazil's first civilian President for 20 years. Page 18

pears ready to accept as this year's target, may be out of reach. The oil price cut is likely to cost Mexico \$300m over a year in lost revenue, which officials say is a manageable figure and not catastrophic.

The new package is the first time that a concrete proposal has been made to slim down the enormous size of the state sector.

It also promises to reduce restrictions on imports, which could help to make Mexican industry more competitive and reduce inflation. Last year inflation reached almost 60 per cent, compared with a 35 per cent target.

A list of the state companies to be disposed of has yet to be published, but it is safe to assume that it will not include the nationalised banks.

The other main point from the package includes an absolute ban on job creation in public administration and the nationalised banks.

In addition, any non-union vacancies will remain unfilled. Non-priority investment projects are to be frozen and administrative costs reduced in a campaign to reduce bureaucracy. Subsidies will be cut and tax collection procedures will be tightened.

Chile near to IMF deal, Page 4

## Phillips says it is worth \$9.6bn

By William Hall in New York

PHILLIPS PETROLEUM, which is fighting off the unwelcome overtures of some of Wall Street's most skilful corporate predators, took the unusual step yesterday of putting a \$9.6bn minimum price tag on the company.

Phillips said that while it was not seeking a "white knight" in the form of a friendly oil company, it would accept a cash tender offer at \$62 a share or better, in which all shareholders were treated fairly.

Phillips shares rose by 34 to \$50 1/2 in heavy trading yesterday morning after the announcement.

The statement was made as part of the measures that Phillips is adopting to defeat Mr Carl Icahn, a Wall Street financier who made an unsolicited offer for the company at the start of the week. In rejecting the Icahn offer yesterday Phillips stressed that it did not think that now was the time for major oil companies to be "liquidated or busted-up for the benefit of speculators or corporate raiders."

The Oklahoma oil company has been battling to remain independent since early December when it received an unwelcome takeover approach from Mr T. Boone Pickens, the Texas oilman, which was said to value the company at about \$80 per share. Phillips fought off Mr Pickens and his friends by agreeing to buy back his 5.7 per cent stake at \$38 per share cash - part of a controversial recapitalisation plan which will effectively insulate it from unwelcome takeovers.

Several big Wall Street investors, however, are known to be unhappy with the recapitalisation plan, and have taken particular exception to Phillips' argument that the plan valued its shares at the equivalent of \$53 for each old Phillips share. Only Mr Pickens and his colleagues are

Continued on Page 18

## Turner to broadcast 24-hour TV news channel to Europe

BY PAUL TAYLOR IN NEW YORK

TURNER Broadcasting, the U.S. television and cable news group run by the flamboyant entrepreneur, Mr Ted Turner, said yesterday that it plans to begin beaming its 24-hour-a-day news channel to Europe beginning in September.

Turner said the move was an effort to foster "peace through communication."

The Atlanta-based television group which operates the Cable News Network (CNN), a news headline service, a broadcast network called Superstation WTBS and owns the Atlanta Braves baseball team, said yesterday that it has signed seven-year agreements with Comsat, the U.S. satellite communications group, and British Telecom International (BTI) to begin live transmission of CNN "on or about September 15."

The news service will be beamed up to a satellite over the Atlantic ocean from a new "telescope" under construction in Atlanta and then back to an earthstation in the UK.

Initially the service will be provided free-of-charge for a three-

month "familiarisation" period to television networks in Europe who are members of the European Broadcasting Union. Turner said yesterday that it will shortly begin a marketing effort in Europe to persuade European stations to take the service.

Turner already delivers CNN to stations in Canada and Japan where it is used by cable system operators and by networks who extract portions of the news coverage for use in their broadcast services. Turner said that it expects similar agreements and distribution in Europe.

The company, which recently raised \$200m through a securities offering in the U.S., gave no details of financing or costs of the project. CNN, which was set up in June 1980, has yet to become solidly profitable.

Mr Turner consolidated his grip on the U.S. market for 24-hour news in late 1983, however, when Turner acquired its only significant rival, the Satellite News Channel, from American Broadcasting Companies

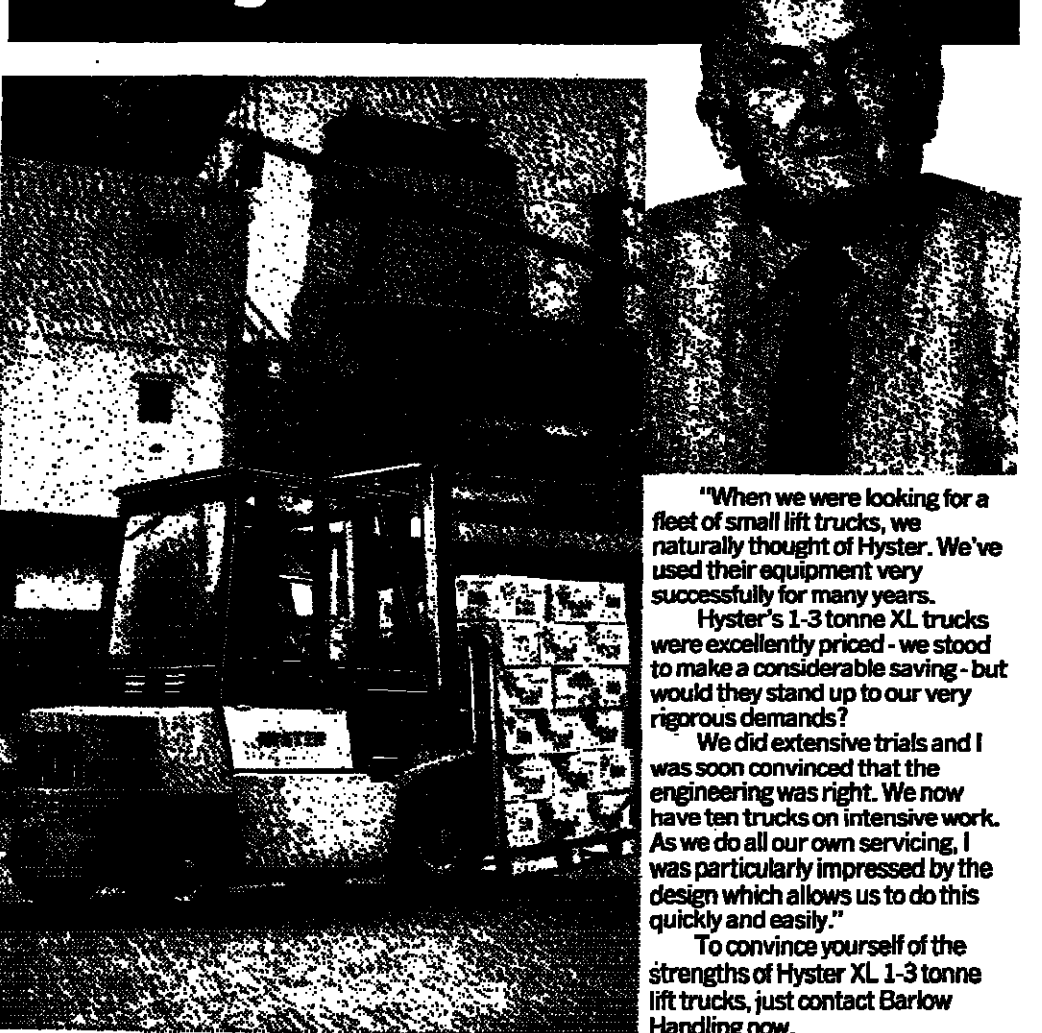
and Westinghouse Electric. Since then Turner says CNN has been "profitable at times" and has said the unit should be "solidly profitable in 1985."

The latest move comes shortly after Turner suffered an embarrassing failure with its attempt to launch a 24-hour-a-day music channel called Cable Music Channel. After only a month of operation, Turner sold the fledgling music service to rival MTV networks in November last year for \$1m after audiences fell far short of expectations.

Guy de Jonquieres in London writes: The CNN channel will be beamed across Western Europe directly from the Intelsat V satellite. Any cable television system equipped with a suitable earth station will be able to receive it.

British Telecom will handle the distribution of the service between the satellite and ground stations and will provide the Turner organisation with local support. The American company will be responsible for marketing.

## "Intensive trials of the Hyster XL convinced me the engineering was right."



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## EUROPEAN NEWS

## Chernenko's ill-health fuels further speculation over succession

BY PATRICK COCKBURN IN MOSCOW

THE ILLNESS of Soviet President Konstantin Chernenko, confirmed by the editor of the Communist Party daily Pravda this week, comes a year after he took over as leader from Mr Yuri Andropov.

Mr Chernenko has not been seen in public since December 27 and, for the third time in five years, diplomats in Moscow are speculating about the demise of a Soviet leader.

The basis for the rumours about the severity of his illness arises from the insubstantial to the non-existent, but the length of time since he last appeared implies that his health is seriously impaired. This impression will be confirmed if he fails to meet Mr Andropov's successor, the Greek Prime Minister, who pays an official visit to Moscow next week.

But the incapacity, or even death, of Mr Chernenko would

probably not in the immediate term, lead to substantive changes in Soviet policy.

Soviet and U.S. delegations start disarmament talks in Geneva on March 12 and there is little sign of any real division within the Politburo on the stance to be adopted towards Washington.

In any case, much of the formulation and all of the execution of foreign policy is the province of Mr Andrei Gromyko who has been Foreign Minister since 1957. Ever since the death of Mr Andropov in early 1984 his authority over external affairs has looked near absolute.

In the longer term, the greatest impact of a new leader—or the continuation in office of an incapacitated President Chernenko—is likely to be on domestic economic and political policy. Change, or lack of it,

in the leadership will have a serious effect on the degree to which economic reforms now being proposed are implemented.

Marshal Vasili Petrov has been appointed First Deputy Defence Minister. He was previously head of ground forces, the largest of the five sections into which the Soviet armed forces are divided.

Some reform is likely whatever happens. Economic experiments have been in the air since the last years of President Leonid Brezhnev who died in 1982. The Press is filled with trenchant accounts of economic failures and how to remedy them.

This criticism has not been reined back by President Chernenko though the reforms have been slow to move from experiment to implementation.

Economic change will be testing for the Politburo whoever is general secretary of the Party and it is very doubtful if Mr Chernenko has the desire or the capacity to push through a thorough-going change in the way the economy is run.

Those who want such reforms may pin their hopes on Mr Mikhail Gorbachev, the 53-year-old Number Two to Mr Chernenko, who belongs to the post war generation of Soviet leaders who rose to power after the purges of the Stalinist years.

Born in Stavropol just north of the Caucasus, Mr Gorbachev went to Moscow University and graduated as a lawyer. He returned home to rise rapidly through the ranks of the local Party before venturing to Moscow as the Politburo's agricultural expert in 1978.

He has the gift of being in the right place at the right

time. Under Mr Andropov, Mr Gorbachev liaised between the bedside of the dying leader and the Politburo while at the same time making a name for himself as the most eloquent proponent of economic reform.

He has always emphasised greater managerial autonomy at the base of the economy, tighter control at the centre and a strong link between pay and productivity. Whether he has the political strength to match these aspirations and carry out surgery on powerful institutions has yet to be demonstrated.

Mr Gorbachev's main rival in the Politburo, Mr Grigori Yavlinskii, has always had a more dour image. As Communist Party boss of Leningrad, he acquired a reputation for harshness and competence which remains with him.

Yet the constraints on either man exercising full authority

within the Politburo, supposing they gained the leadership, are as severe as they have proved for President Chernenko. None can equal Mr Andropov's authority within the leadership or the Central Committee.

Whether their instincts are radical or conservative they would find it difficult to remove senior Party Leaders. It will be important for the prospects of reform to see if there are significant changes among the 150 first secretaries of district Communist Parties who hold much of the power in the Soviet Union.

The incapacity of President Chernenko has certainly not produced a vacuum in authority in the Kremlin. This is because he was originally selected as Prime Minister in what is very much a collective leadership. It is likely to remain so whether he lives or dies.



Mr Chernenko: Not seen in public since December

## Officials quit in Spanish currency scandal

By David White in Madrid

TWO SENIOR Spanish Foreign Ministry officials resigned yesterday after their names were linked to a scandal over the channelling of secret funds to Switzerland.

The Ministry said it had accepted the resignations of Sr Salvador Bermudez de Castro, responsible for relations with Spain's former colony of Equatorial Guinea, and Sr Jose Luis Pardo, in charge of international technical co-operation. Several dozen prominent Spaniards, including well-known sports figures, are alleged to have been involved in the currency network, in which legal officials claim at least 250 million dollars have been illegally transferred out of Spain.

Sr Miguel Boyer, the Finance Minister, said that the evasion network may be the biggest since the 1960s. A former Spanish consul-general in Geneva, Sr Francisco Palazon, who has found managing operations in Spain and Switzerland has been removed from currency and other people have so far been released on bail.

Princess Teresa of Bavaria, a second cousin of King Juan Carlos and a family figure to followers of Spain's 1st king, has been called on to testify to the examining magistrate next week in connection with the case. Amid a right-wing campaign against what are seen as political manoeuvres, the case has provoked members of the conservative opposition to press for liberalisation of the country's strict foreign exchange control laws.

## Gibraltar deal fails to impress

By Our Madrid Correspondent

THE SPANISH Government has been accused by opposition of "dropping its trousers" in dealing with Britain over the Gibraltar issue.

The attack by Sr Manuel Fraga, a brilliant leader of the right-wing Popular Party, came after the first Anglo-Spanish talks on the future of the Rock in Geneva on Tuesday. The opposition up to now had been surprisingly quiet about the latest bilateral initiative.

Mr Fraga, who was a minister in the Franco regime in the 1960s when Spain started imposing restrictions on the press in its claim to Gibraltar, accused the Socialist Government of "deceiving" the country.

It was attempting, he told journalists in Barcelona, to pretend that he had scored a diplomatic victory when it was just "giving way to all the British authorities' demands, with nothing in return."

The outburst from Sr Fraga, who spent two years as Spanish ambassador in London, was backed up by a similar attack in the conservative Madrid daily newspaper, ABC. It said Mrs Margaret Thatcher, Britain's Prime Minister, had succeeded in getting Spain to "accept" the "concessions" it has made in the guise of "cooperation" to play for Britain's presence in the colony.

## Violence in shipyards

A Spanish policeman was injured yesterday during violent clashes in shipyard workers in Gijón protesting against job cuts. Reuters reports. Police firing tear gas and rubber bullets removed barricades set up by the workers.

Meanwhile, workers at Puente de Genoa shipbuilding company yesterday suspended a strike over closure plans after the Government agreed to discuss redundancy compensation.

## Craxi sees Italian pattern in terror wave

By James Buxton in Rome

THE NEW wave of terrorism in Europe, which followed a pattern established in Italy at the beginning of the decade by the left-wing Red Brigades, Sig Bettino Craxi, the Italian Prime Minister, said yesterday.

"Italian terrorism seems to have led the class in Europe," he told Parliament. He warned that there was reason to fear a terrorist attack in Italy, most likely in Rome, as part of the present terrorist offensive.

The Socialist Prime Minister said that the recent terrorist attacks in West Germany, France, Greece, Portugal, the Netherlands and Belgium showed "a common anti-establishment and anti-NATO pattern and ideological aims undoubtedly inspired by the Red Brigades."

He concluded from this that the Red Brigades themselves, who are known to be re-organising in Italy despite the severe defeat they suffered in 1982, would be planning to take part in the European offensive.

He also said that seven Italian terrorists had been arrested along with French extremists in a terrorist roundup in France in December.

Sig Craxi, who had criticised France for refusing to respond to Italian requests for the extradition of Italian wanted for terrorist offences in Italy who are known to be on the run in France. He said the Italian authorities had established that there were 117 Italian terrorists in France and believed there were 44 more.

Italy had asked the French Government for the extradition of 120 terrorists, and was repeatedly pressing the requests but without success, he said.

France had stated in 1982 that it would not extradite people whose offences it considered were political. But the Italian Government, he said, believed that it must be possible to find an accommodation between the glorious tradition which it respects, and the need to fight terrorism, which is no longer just an Italian phenomenon, and in which the French Government is now involved to the highest degree.

Sig Craxi said that the authorities were trying to track down 295 left-wing Italian terrorists, of whom at least 204 were abroad. Some 68 right-wing terrorists were being sought of whom 35 were thought to be abroad.

After France, the two countries which harboured the largest number of Italian terrorists were Nicaragua and Costa Rica. The routes the terrorists took in order to get to Nicaragua were thought to pass through Madrid and through Moscow.

The Prime Minister said that Italy has no intention of granting an amnesty to terrorists on the run.

Attacks on the church have enraged many Poles, reports Christopher Bobinski in Torun

## Trial verdicts fail to remove mistrust of Jaruzelski

THE END of the 26-day trial of the four Polish Interior Ministry men found guilty of kidnapping and murdering Father Jerzy Popieluszko, the pro-Solidarity priest, leaves a number of questions unanswered.

Much is still unclear about the background to the events of October 19 last year when the three men, Captain Grzegorz Piotrowski and his subordinates Lieutenant Waldemar Chmielewski and Leszek Pekala, kidnapped the priest and two hours later flung his body into the Vistula River. Also on trial was Colonel Adam Piefuszka, who is said to have put the other three up to the kidnapping.

The case has aroused enormous interest among Poles and, of course, if controlled chunks of the courtroom proceedings have been published in the media, arguments over why the kidnapping took place are fierce. There are three main theories.

The kidnappers themselves say they never meant to kill the priest but merely to frighten him into dropping his outspoken sermons and into telling what he knew about the Solidarity underground.

His death came "by accident," they say, and this version of events is backed both by their police colleagues and party hardliners anxious to deflect blame from the party chief, for letting police methods develop so as to make illegal kidnappings of this kind possible.

The second theory is put forward by the court prosecutors and the Government, who have charged that the death was planned as a provocation inspired by hardliners inside the police and elsewhere to stir



The four defendants were given jail sentences totalling 79 years. From left: Adam Pietruszka received 25 years; Grzegorz Piotrowski 25; Waldemar Chmielewski 14; Leszek Pekala 15

year of Solidarity sympathisers by Alleged Government agents.

Those who accept this view place ultimate responsibility for the death with Gen Czeslaw Kiszczak, the Interior Minister, and Gen Wojciech Jaruzelski, the party chief, for letting police methods develop so as to make illegal kidnappings of this kind possible.

The second theory is put forward by the court prosecutors and the Government, who have charged that the death was planned as a provocation inspired by hardliners inside the police and elsewhere to stir

unrest and weaken Gen Jaruzelski's position.

How could the General have wanted the priest dead at a time when the country had calmed down after the July amnesty for political prisoners and was beginning to open up to the West, they ask.

A third group feels the inspiration for the kidnapping and killing came from the Soviet Union. Mr Jan Olszewski, the lawyer who is representing the priest's family, supports this view.

Father Popieluszko was described in the Soviet publication Investia last year as a counter-revolutionary, and this signal may have been taken up by hard-line party officials who passed the word on to the secret police.

They would have reasoned that an attack on the priest would be taken in Moscow as a sign of diligence, and at the same time would present the Jaruzelski and Kiszczak leadership in a poor light.

In a sense it is Gen Jaruzelski's interest to have arguments and speculation over all three theories and no one certain about the truth, while behind the scenes he moves to secure his position. What is clear is that some kind of assault will have to be made on the secret police, a delicate matter for Gen Jaruzelski who needs the police to enforce obedience.

If those on trial have been made scapegoats for an action ordered or hinted at from the top, then he will have to move to regain control over a discredited ministry.

"If hardliners were responsible, then they will have to be dealt with discreetly to maintain the illusion of unity, an

even more important consideration if there is any Soviet connection. The head of the Central Committee's Security department and his boss, the party secretary, have already disappeared from public view.

But as long as the police are needed politically, only half measures can be expected and few feel that police methods in the provinces will change.

The Catholic church, whose qualified support is still essential to Gen Jaruzelski if the country is to stay calm, understands this. The fact that the trial took place at all was probably the result of church pressure.

The trial has seen some extraordinary attacks on the church, both on the bishops and on radical priests like Father Popieluszko. These attacks stem partly from a desire to show other Eastern bloc countries that no sell-out to the church has taken place, but they also reflect the Jaruzelski leadership's horror at the church's ever-growing strength.

The attacks have incensed the bishops and contacts between church and state may be stormy for a time. But there is little sign of a fundamental break in relations.

The population at large remains mistrustful, despite the unprecedented nature of the trial. The attacks on the church enraged many and, in the eyes of many, the Jaruzelski government is responsible for the trial. Few feel confident that the Government's intentions have been made clear.

## Ariane space launch has dual payload

BY DAVID MARSH IN PARIS

ARIANE, the French-led space rocket, is scheduled tonight to send into orbit a unique dual payload of Third World communication satellites that might, if the launch succeeds, pave the way for more important contracts for the European space industry.

The Ariane launch, at the space centre at Kourou in French Guiana, will be the rocket's 12th mission since its first launch at the end of 1979.

If all goes well, tonight's operation should place in orbit the first ArabSat satellite built by French and U.S. companies for the Arab League. It is destined to provide telecommunications and television facilities for 22 countries throughout northern Africa and the Middle East.

It will also launch the first Brazilian national telecommunications

satellite, BrazilSat, manufactured by Spar Aerospace of Canada. Ariane has now registered six successive successful launches after two failures in May 1980 and September 1982. It has gained considerable ground over the past 12 months in its commercial battle for satellite launching with U.S. space vehicles, led by the space shuttle.

Aérospatiale, the French state-owned aerospace group, regards tonight's launch as doubly important because it is the lead contractor for Ariane and also, together with Ford of the U.S., has built the ArabSat craft under a contract worth \$135m in total, granted in 1981.

Arianespace, the commercial company that sells satellite slots with Ariane, is hoping a smooth launch will provide a solid reference leading to fresh business with national and international satellite organisations in coming years.

## UN refugee chief denies bias charge

THE UNITED NATIONS

High Commissioner for Refugees, Mr Poul Hartling, yesterday dismissed as political an Ethiopian charge that his agency was favouring neighbouring Sudan in distributing emergency aid. Reuters reports from Geneva.

Launching an unprecedented appeal for almost \$100m for more than 1m new refugees in the Horn of Africa, Mr Hartling stressed that the UN body fulfils a humanitarian role in helping wherever people were in need.

"If they are in need in Ethiopia, yes. If they are in need in Sudan, yes," he told a news conference. "But if one country says you should not help another country, I think I hear a political note in that."

He was responding to remarks by Mr Kassa Kebede, Ethiopian ambassador to the UN in Geneva, who said that his government expressed its displeasure at alleged bias against Ethiopia by the UNHCR.

Two-thirds of the \$96.4m called for this year, more than treble an appeal made last month, are earmarked for an estimated 720,000 Ethiopians in Eastern Sudan.

Mr Hartling warned that, with the onset of the rainy season in June, most of the area would become inaccessible.

"It is of vital importance that basic food rations—up to some 55,000 tons—should be delivered by early April. A further \$7m have been apportioned to Somalia, where the number of Ethiopian refugees has swelled by 60,000 newcomers to 700,000, according to UNHCR figures.

Mr Hartling's ambassador claimed that the UN body had accepted exaggerated estimates of refugees by the governments of Somalia and Sudan.

Mr Hartling countered by saying only that UNHCR stood accused of helping one country at the expense of another.

"The we have heard before," he said. "They (the Ethiopian government) may have their reasons but I think there are political, not humanitarian."

## Steelmaker takes Commission to court over scrap shortage

BY PAUL CHEESERIGHT IN BRUSSELS

THE RUNNING squabble between electric steel producers and the European Commission over scrap metal supplies has moved into the European Court of Justice.

Campidier of Milan, an Italian producer, has taken the Commission to the Court, charging it with failing to fulfil its obligations under the European Coal and Steel Treaty. It wants the Commission to be compelled to secure adequate raw materials for steel producers.

The case is actively backed by the European Independent Steelworks Association which groups the smaller, private sec-

tor companies. The association said yesterday that it had been drawing Commission attention for a long time to scrap metal problems and demanding its intervention.

The electric steel producers use large amounts of scrap metal as a raw material, but they have been hit by higher prices, denominated in dollars, and a rise in EEC exports to outside markets. Industry ministers last December told the Commission to keep an eye on the situation but ruled out any action on export control until annual exports passed the 6m tonnes level.

This situation was intolerable, especially for the mini-plants, the association said yesterday.

The Campidier action, however, is not likely to produce any immediate results. Now that it has been filed, court procedures demand first the submission of written evidence by both sides, and then oral hearings before the move to a judgment.

The action thus seems likely to be designed to raise the temperature of political discussions. Italy, Denmark, Belgium and Ireland all want export controls on scrap metal to be imposed.

## Bonn rejects urgent jobs action

THE WEST GERMAN Government

yesterday rejected opposition calls for urgent action to bring down unemployment which last month reached an all-time record of 2.9m, or 10 per cent of the workforce. Reuters reports.

"This figure must not be allowed to stampede us into activity," Herr Martin Bangemann, the Economics Minister, said. He told the Bundestag in

a debate that short-term job creation or work-sharing were no cure.

Last month's unemployment figures were largely the result of the solid January for 22 years which shut down industries. "The underlying trend on the labour market is thoroughly favourable," he said.

Herr Bangemann said the Government regarded reducing unemployment as a central goal but was convinced this could be achieved only by steady and reliable economic and fiscal policies.

West Germany said yesterday that the tax-free cruise ship industry had a high EEC food prices to undercut mainland shops must spend at least two hours in international waters from June 1.

## Carrington urges Denmark to spend more on defence

LORD CARRINGTON, Nato's

Secretary General, began a two-day visit to Denmark yesterday with a call for increased spending on conventional defence, Reuters report from Copenhagen.

Denmark's low level of defence spending and attempts by opposition parties to ban nuclear weapons from the country even in wartime have aroused concern among Nato officials and are likely to figure high on Lord Carrington's

agenda.

In an interview in the Danish daily newspaper, Politiken, Lord Carrington said: "There is a great desire in Nato that a little more should be spent on conventional defence, because the Warsaw Pact bloc has clear superiority here."

"It is important to understand that any decision to use atomic weapons would have to be taken much sooner if we are inferior in the conventional sphere."

## Hostile reception for Mitterrand

BEAUVAIS - President Francois

Mitterrand of France returned to the electoral campaign trail yesterday, fiercely defending his economic record, at the start of a two-day tour of northern France.

M Mitterrand, whose Socialist Party faces a strong right-wing challenge in regional elections next month, was given a hostile reception outside Beauvais city hall by Communist militants shouting: "Mitterrand, treason."

He met similar jibes throughout the day during visits to industrial plants and a job-training school.

The hostility followed a sharp at-

tack on his Administration yesterday by his former ally M Georges Marchais, secretary-general of the Communist Party, which quit the Government in July.

Addressing local officials in the medieval city of Beauvais in Picardy, M Mitterrand retorted: "France today is in a better economic condition than several of its European neighbours, including Great Britain."

M Mitterrand's trip, his third in the provinces in less than two weeks, is aimed at boosting a flagging popularity badly hit by France's economic difficulties.

Reuters

## Defence row may hamper Swedish government at polls

BY DAVID BROWN IN STOCKHOLM

THE SWEDISH PARLIAMENT will vote today on a no-confidence motion involving Mr Lennart Bodström, the Foreign Minister, whose remarks at a private dinner with journalists have raised questions about the Government's commitment to the nation's official security policy.

The motion—only the second in the history of the Swedish constitution—was tabled earlier this week by the three main non-Socialist opposition parties. Since it requires a majority, the Social Democratic minister is expected to survive the challenge.

But the affair may have robbed the Government of one of its key policy planks in its uphill battle for re-election—its own dependability on security and neutrality issues, and the threat posed by the

opposition to the consensus on these policies in Sweden.

This week's parliamentary debate, which has been interrupted with an uncharacteristic barrage of attacks and mudslinging, has highlighted a new tone of political acrimony, which has accompanied the growing power of the non-Socialist opposition.

Mr Olof Palme, the Prime Minister, has described the opposition's call for the Foreign Minister's resignation as a declaration of war. "The bridges (on consensus) have broken," he cried during the debate this week.

The controversy stems from Mr Bodström's alleged rejection of the Military Supreme Command's conclusions that foreign submarine intrusions into Sweden's territorial waters had continued until late last year. These conclusions form a

basis for the Government's defence and foreign policies.

The Foreign Minister is also reported to have raised the highly sensitive subject of Sweden's relations with the Soviet Union. These ties have been strained at least since 1983, when a Government-appointed commission specifically concluded that Moscow was behind several of the submarine incursions.

Mr Bodström has argued that the newspaper reports misrepresented his position. It was the nationality, not the existence of the submarines, which he had called into question, he said. In his defence, Mr Palme has made an unpoplar attempt to discredit several of the publications involved, which include both of Stockholm's leading dailies.

According to Mr Ulf Adelsohn, leader of the opposition

Conservative party: "It is inconceivable that six reporters could misinterpret Mr Bodström in the same way on point after point." The affair "has created a dangerous uncertainty as to where the Government actually stands."

Mr Palme's position has not been helped by the announcement this week by Mr Anders Thunberg, the Defence Minister, of his intention to leave the Government at the end of its current term. Despite his loyal public insistence that the decision has nothing to do with the Bodström affair, it is thought highly unlikely that the timing of his statement is lost the bigger battle; heit claim to custodianship of neutrality and security. In this year's election, that may well prove to be a disadvantage.

Prime Minister who leads the Centre Party asked: "What logical connection can be drawn between our demand for a foreign minister who can articulate a consistent policy and the issue of war and peace?"

Although Mr Palme's Social Democratic can reasonably expect to win the vote of no-confidence, they may well have lost the bigger battle; heit claim to custodianship of neutrality and security. In this year's election, that may well prove to be a disadvantage.

FINANCIAL TIMES, LONDON, 8 FEBRUARY 1985. U.S. "submarine" news published daily except Sundays and holidays. U.S. "submarine" news published daily except Sundays and holidays. U.S. "submarine" news published daily except Sundays and holidays. U.S. "submarine" news published daily except Sundays and holidays.

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# Lebanon's indestructible asset finally cracks under the strain

By Richard Johns in Beirut

SINCE the outbreak of civil war in Lebanon in 1975, the country's only apparently indestructible asset has been its currency. Now even that is cracking under the strain. On Monday the Lebanese pound fell to a new low against the dollar and provoked a leading Beirut academic to predict that any further deterioration of the economy could provoke "a social explosion which will make the present anarchy in West Beirut look like a bar room brawl."

The precipitous fall in the value of the pound, inevitably means higher inflation and a further decline in living standards in a country where up to 30 per cent of goods consumed are imported and where a third of the workforce is either without a job or seriously under-employed.

This is compounded by the failure of the euphemistically termed "Government of National Unity" to reconcile the warring factions. Until that happens the Government will be able to raise only a fraction of its revenue requirements and the Central Bank will have to continue printing money to pay the bills.

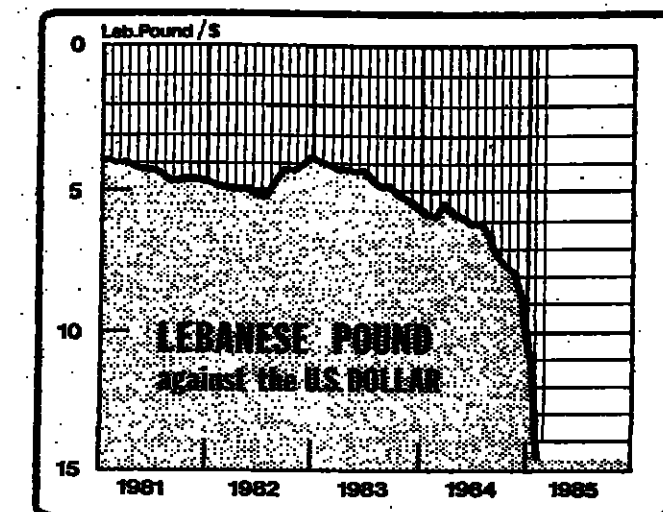
Economists and bankers here estimate that inflation last year ran at a rate of about 50

per cent or so — about twice the official estimate.

By the middle of this year there is a real danger that Lebanon could be in the same predicament as Israel or Bolivia. But it has little chance of outside assistance unless the Government can assert itself.

In this context the bomb blasts outside three Beirut banks last weekend — claimed by the Islamic Jihad (Holy War) "Brigade for Protecting the Poor in Lebanon" — could be a dire portent. Whether the attacks were carried out by religious extremists, Left-wing agitators or any other elements in the belief that they have a vested interest in the total destabilisation of Lebanon, the explosions were a clear protest related to the remorseless depreciation of the pound which started last year and alleged speculation by banks, which should know better.

When President Gemayel was sworn into office in September 1982 following the assassination of his brother Bashir, he was worth L44.32. This was an unreasonable rate considering the ravages of conflict which left more than 100,000 dead and had reduced gross domestic product by 40 per cent



in real terms before the Israeli invasion.

The average rate of depreciation of the pound up to the end of 1982 was "about equal to the difference between domestic and foreign rates of price inflation," according to Dr Nasser Saidi, a Lebanese Professor of Economics at Geneva University.

However, the fatal blow was delivered in February last year when the Shiite and Druze militias wrestled control of

West Beirut from the army — splitting it in the process — following six months of curfew and heavy-handed authority from the essentially Christian-directed force.

In 1983, exports dropped by half and net income from services was down by 40 per cent. Weapons purchased after President Amin Gemayel's accession to power at a cost of \$1bn had already been a major drain on public finances and are

estimated by his opponents to have caused \$2bn worth of damage.

Be that as it may, the confidence-shattering events nearly a year ago occurred as remittances from expatriate Lebanese began to dry up. The recession set in in the Gulf and expatriate Lebanese showed their declining faith in their country's future by placing reduced savings elsewhere.

Lebanon's balance of payments, perennially in surplus until 1982, sustained a deficit of \$930m in 1983 and one of \$1.4bn in 1984. Last year the Central Bank's foreign exchange reserves dropped by \$1.2bn with the decline almost wholly accounted for by \$520m used in currency support operations and \$763m to meet the Government's foreign exchange requirements. That left \$620m at the end of last year, only enough to cover public sector imports of fuel, wheat and sugar until the early summer with nothing to spare for any more support of the pound.

Last week reserves were down to \$350-400m, according to Mr Dany Chamoun, son of Finance Minister Mr Camille Chamoun and deputy leader of the National Liberal Party, who cited his father as his source.

With commodity imports running at \$60-70m a month, the reduction lends credence to the belief that the Government is still using foreign currency to buy weapons.

In December, the International Monetary Fund advised the Central Bank to stop providing foreign exchange to pay for public sector imports. No other source of dollars is immediately in sight.

Lebanon's gold reserves of 9.2m oz remain sacrosanct, the only cover for the battered pound. Equally critical is the Government's financial position. In 1984, its deficit was L69.18bn, almost as much as projected expenditure. It was covered by a L68bn increase in borrowing from the Central Bank and a L13bn net rise in outstanding treasury bills now giving a 16 to 18 per cent interest rate payable upfront.

Their sale has been made possible by excess of liquidity of the banks lacking other sound lending opportunities. But even at such yields they are becoming reluctant to subscribe. The fact is that revenue in prospect this year may well not be sufficient to redeem Government paper and interest on it.

Control of the ports is of fundamental importance and at

the heart also of the underlying political malaise. Last year Customs duty should have brought in about L63bn but receipts for the state were only about L6400m because the bulk of imports passed through the "illegal" ports — Sunni Moslem dominated Tripoli in the north, Jounieh in the Christian heartland and, until recently, Beirut port's fifth basin.

If a coherent will to save the situation could be formulated then it might just be possible to mobilise the necessary financial aid and balance of payments support required, in particular the \$1.6bn pledged in 1979 by the Arab oil producers but never paid. Other development funds pledged by Western European donors can be of little use in the short-term.

All sane Lebanese aware of the basic economic facts agree that there can be no salvation without a political solution and the restoration of security in all areas theoretically under Government control. At this crucial juncture, meanwhile, any major outbreak of civil strife from the first phase of the Israeli withdrawal from the area around Sidon could wreck the prospects of a lasting reconciliation for ever and reduce Lebanon indefinitely to desolate Third World poverty.

## Israel will seek more emergency U.S. aid

By David Lennon in Tel Aviv

ISRAELI Finance Minister Yitzhak Mordechai will by Washington early next month in search of urgently needed U.S. economic assistance to offset the crippling drain on the country's foreign currency reserves.

Mr Mordechai will urge the U.S. to provide Israel with \$1.5bn in emergency supplemental aid, in addition to the \$1.2bn economic aid already provided for this year and the regular allocation for the next U.S. fiscal year, which starts in October.

Israel received the economic aid grant of \$1.2bn for 1985 in early November. This temporarily relieves pressure on the foreign currency reserves, but three quarters of that aid has already been drained from the reserves by Government spending.

Today, the reserves stand at \$2.3bn, but if they keep dropping by nearly \$300m a month they will be dangerously low within three months, and this will seriously hamper Israel's ability to renew its credit lines.

Mr Efraim Dovrat, a deputy director-general of the Treasury, said yesterday that he believed there was a good chance that Israel would receive emergency economic aid from the U.S. "There are some specific expressions by leading U.S. politicians about their readiness in principle to grant the aid needed."

About 90 per cent of the outflow of foreign currency is caused by servicing and repayments of the country's foreign debt of some \$20bn and the current budget deficit. Most economists doubt that the Government's steps this week to curb the private sectors use of foreign currency will have much impact on the reserves situation.

## Doubts over Hawke judgment puts A\$ under pressure

By Michael Thompson-Noel in Sydney

THE AUSTRALIAN dollar was again under heavy pressure yesterday, as the Opposition blamed the Hawke Government's alleged weakness in foreign and economic policy for the dollar's fall. "Mr Hawke's total cave-in to the socialist Left (of the Australian Labor Party) on the MX missile issue has thrown doubt on the government's capacity to handle any future policy challenge from the Left," said Mr John Moore, Opposition Treasury spokesman, in a statement.

The Australian dollar closed at U.S.\$0.7685 after plunging a new record low of U.S.\$0.7630 — a fall of more than 4 cents since last Friday.

In addition to the strength of the U.S. dollar, the local dollar has been hit by adverse sentiment stemming from widespread questioning of Mr Hawke's political judgment and authority following his MX U-turn in Washington this week.

The Prime Minister was savagely criticised yesterday by Senator Don Chipp, leader of the Australian Democrats, who said he believed Mr Hawke had made a "horrid deal" with the U.S. so as to extricate Australia from its planned monitoring role in MX missile tests.

The Democrats, who are fiercely anti-nuclear, control the Australian Senate (Upper House) — a fact that illustrates the hard time facing Mr Hawke on his return to Australia.

Thanks to sympathy in Wash-

ington, Mr Hawke has withdrawn from the MX tests, without incurring the displeasure of the U.S. Government.

"I believe a horrid deal has been made," said Senator Chipp. "There is something here that stinks."

When Parliament resumes on February 21, the Democrats' Bill aimed at banning visits by nuclear armed or powered ships to Australian ports.

Meanwhile, confidence has been further undermined by work bans on the part of three Civil Service unions angered by rejection of an 8.3 per cent annual wage claim.

Mr Ralph Willis, Minister for Industrial Relations and Employment, may issue suspension orders today if the unions refuse to work normally.

Mr Willis said the Government would not reach wage agreements outside the central arbitration process. "To do so would be an open invitation to unions and employers all over the country to agree to increases outside the national wage guidelines, and would totally destroy the wage indexation system and the prices and incomes accord."

More than \$150 (\$600m) in Government revenue is being held up by the work ban.

Another factor affecting confidence is the Government's decision to dispense with M3 monetary targeting, at least for the time being.

## Tambo issues stern rebuff to Mandela freedom offer

By Anthony Robinson in Johannesburg

MR OLIVER TAMBO, president of the African National Congress, has delivered an uncompromising reply to the recent offer by South African President P. W. Botha to release Nelson Mandela and other imprisoned ANC leaders provided they renounce the armed struggle and agree to abide by the existing laws of South Africa.

In an interview published by the Zimbabwe Herald, Mr Tambo said the ANC demands the unconditional release of Mr Mandela and other leaders as the pre-condition for starting talks. Furthermore, the ANC would continue to wage the armed struggle throughout any such talks until the apartheid system itself was removed.

Mr Tambo is a banned person under South African law and as such his views may not be quoted in the South African Press without a specific waiver by the Minister of Law and Order. Such is the importance of Mr Tambo's statement that Mr Louis le Grange, the Minister, did waive the ban in this case and the interview figured prominently on the front pages of South African newspapers yesterday.

In the interview, Mr Tambo insisted that, in the ANC view,

there was no alternative to armed struggle because all peaceful alternatives had failed in the past.

"Therefore, we say, to remove the armed struggle the regime should first remove apartheid which is the cause of it."

Mr Tambo added that the only new feature of President Botha's recent offer was the proposal to release Mr Mandela into South Africa and not into the Transkei "bantustan." He recalled that Mr Mandela had consistently refused to consider release under conditions which would have endorsed and recognised the so-called independent bantustans.

By now, Pretoria should have realised that Mr Mandela was a man of strong principles and that, if they wanted to talk to him about the struggle, then they will have to talk to him as a free man, Mr Tambo said.

He dismissed recent Government initiatives (to recognise the permanence of more than 10m blacks in urban areas and offer them enhanced property rights and a new non-statutory political forum) as being "built on the crumbling foundations of apartheid." As such they constituted "merely another idea for bantustans in the urban areas."

## Sudanese exchange curbs

SUDAN'S Central Bank yesterday ordered the closure of all privately owned foreign exchange offices and restricted transactions to authorised commercial banks as part of measures to stem the slide of the Sudanese pound on the free market, news agencies report from Khartoum.

The currency, officially valued at 1.30 to the dollar, has fallen on the free market from 3.00 to 4.40 in early January to 4.40 on Wednesday.

The free market is the main source of hard currency for the country's private sector, but the pound has continued to fall because, according to bankers, of speculation following a loss of confidence in the economy and a seasonal drop in revenues from cotton, Sudan's main hard currency earner. Severe drought and a influx of refugees from both Ethiopia and Chad has severely hit the economy, already burdened with a \$9bn dollar debt.

## Japan may introduce 'Lombard rate'

By Jarek Martin in Tokyo

FOR THE second time in two days, Mr Satoshi Sumita, governor of the Bank of Japan, has hinted at the possibility of Japan introducing a Lombard type interest rate in order to check the slide of the yen against the dollar.

In parliamentary questioning yesterday, he immediately qualified his remarks by asserting that the time was not right to employ devices to guide domestic interest rates higher. Earlier in the week, he had stated he had no intention of using monetary policy, in other words higher interest rates, to help stabilise the yen.

A Lombard rate, as used in West Germany, allows the central bank to lend to customer commercial banks at, if necessary, higher than the prevailing discount rate, which currently stands at only five per cent.

Most analysts here believe that Mr Sumita's hint of higher interest rates was more of a psychological gambit aimed at the foreign exchange markets. The Ministry of Finance, which would have to approve any such action, has made it clear it is dead set against any general interest rate increase.

Mr Sumita's remarks were given extensive play in the Japanese media yesterday. In the event, the yen opened at 260.45 to the dollar, following the previous day's New York trends, and moved in a narrow range all day, before closing at 260.15, down .40 compared with Wednesday. Opinions were divided on whether or not Mr Sumita's comment had had any impact.

## Takeshita in bid to succeed Nakasone

By Our Tokyo Correspondent

MR NOBUO TAKESHITA, Japan's Finance Minister, yesterday as good as declared his formal ambition to become the country's Prime Minister. He did so at the inaugural meeting of a group of supporters in quintessential Japanese allegorical style, never mentioning exactly what he intended but speaking of his "burning passion" and determination "to work for the rest of my life" in pursuit of this unstated goal.

It is not clear when Mr Takeshita and his other rivals will get their crack at succeeding the incumbent party leader and Prime Minister, Mr Yasuhiro Nakasone. His current and technically last-two-year terms as head of the Liberal Democratic Party does not expire until November next year, but the party is, even by its own exotic standards, unusually rife with intrigue at present.

Yesterday's auspicious occasion, which some Japanese analysts see as marking the beginning of a major power and generational shift inside the LDP, took place in the offices of Mr Takeshita's mentor and the country's chief power broker, Mr Kakuei Tanaka, the former Prime Minister.

## Kim on way home

SOUTH KOREAN dissident Kim Dae-jung arrived in Tokyo yesterday for an overnight stay en route to Seoul from exile in the U.S. Reuters reports from the Japanese capital, Mr Kim, a former presidential candidate and leading opponent of the South Korean Government, is to arrive home today, only four days before national elections.

## Shops shut, curfew imposed on West Bank

By Our Tel Aviv Correspondent

ISRAEL has imposed collective punishment at various places on the occupied West Bank in response to stones thrown at Israeli vehicles. The shops in El Bireh, imposed on part of the Dehaishe refugee camp alongside Bethlehem and shops have been forced to close in Hebron and El Bireh. The Israeli Cabinet early this week decided to react more severely to disturbances and attacks which claimed two Israeli lives in the last seven days.

The curfew in the Dehaishe and the closure of some shops in Hebron are in response to stones thrown at Israeli vehicles. The shops in El Bireh, north of Jerusalem have been closed since the beginning of the week, when an Israeli soldier was shot dead in the town. In southern Lebanon yesterday, Israeli reported two attacks on the south Lebanon militia, a mainly Christian force armed and trained by Israel.

Business in most of South

Lebanon was paralysed by strikes called yesterday by the Moslem community in protest over Israeli retaliatory actions in the wake of Tuesday's car bomb attack on an Israeli military convoy.

Blazing tyres and makeshift barricades blocked roads into Sidon, the south's main city. Streets in Sidon and the port city of Tyre were deserted but security officers said there were noisy protests in other Shiite towns and villages.

The officers said Christian villages near Sidon joined the strike as the city's Archbishop Ibrahim Helou and Moslem leaders condemned "arbitrary Israeli practices," saying Israel was trying to stir up sectarian strife.

Hundreds of Israelis yesterday swept into Palestinian and Shiite areas near Tyre, amid sounds of heavy shooting, in an anti-guerrilla sweep in which Lebanese security officers said dozens of suspects were held.

**BY GEORGE  
I THINK WE'VE  
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## AMERICAN NEWS

The President's promise of a 'second American revolution' in his State of the Union address has drawn mixed responses

# Fancy flights of oratory win acclaim for the old master

By Reginald Dale, U.S.  
Editor in Washington

LONG ON rhetoric, short on reality. That was how Democratic Senator Paul Sarbanes of Maryland succinctly summed up President Ronald Reagan's glowing State of the Union address on Wednesday night—a ringing call for a "second American revolution." Unaccompanied by more than a passing reference to the sacrifices that it might entail.

"Vintage Ronald Reagan," said one White House official, "was the old master delivered another virtually flawless television performance before the traditional joint session of Congress. Once again, just as in last year's election campaign and in this year's inaugural address, Mr. Reagan's vision was of a bright, shining America in which 'anything is possible if we have the faith, the will and the heart.'"

On his 74th birthday, even the most sullen of Democrats in the packed Chamber of the House of Representatives were ready to honour a man they acknowledge to be one of the most popular presidents of modern history. At the end of the speech, Mr. Reagan was summoned back to the podium to be presented with a large, bluish-green birthday card and the assembled Republicans and Democrats joined in a short

chorus of "Happy birthday to you."

It was said to be the seventh time he had heard the serenade in the course of the day. For what must also have been at least the seventh time, Mr. Reagan delivered his now time-honoured response: the 35th time he had been 39 was "the happiest of all," he said.

As his admirers have now come to expect, Mr. Reagan capped his final oratorical flourish with the introduction to the nation of two more "American Heroes." The first of this year's crop was a young Vietnamese woman, Jean Nguyen, who fled Saigon for the U.S. ten years ago without money, possessions or a word of English. In May, said a proud and fatherly Mr. Reagan, she would graduate from West Point.

The second, who received an even warmer ovation, was a 79-year-old black woman, Mother Clara Hale, whose life is devoted to the care of the children of drug-addicted Harlem. "Showbiz," said the Democrats, with more than a touch of grudging admiration.

It seemed to be no coincidence that neither of this year's heroes was white or male. One of Mr. Reagan's main chosen themes was the need for a drive to endow the nation's ethnic and other minorities with "full economic power." He neatly elided Mr. Tip O'Neill, the veteran Democratic house speaker, perched on a chair above and behind him like a judge in a Hollywood court-



Vice President George Bush (left) and Speaker of the House, Tip O'Neill, applaud the President as he prepares to deliver his address to a joint session of Congress.

room, for Congress's dilatoriness in approving his plan for enterprise zones in depressed inner cities.

While not one of Mr. Reagan's proposals for the "forgotten Americans" were new, their prominence in his speech was

clearly designed to try to counter the charge that his policies discriminate against the poor and the blacks, who voted by nine to one against him in November.

But he made no reference to the latest black caucus, "freedom for South Africa." That was left to a group of about 1,000 anti-apartheid demonstrators who surrounded the capitol with a circle of conscience as he spoke, to try to cash in on some of the attendant publicity.

Mr. Reagan, as usual, was disinclined that there was much wrong with an America that his policies had restored to its rightful place as leader of the Western world. "Day by day, we are shattering accepted notions of what is possible. In Europe, they call it the 'American miracle'," he said.

Instead, Mr. Reagan chose to pursue his past theme of "American renewal," of a nation turning again to the old values of "faith, freedom, family, work and neighbourly love," and the tough on crime, anti-abortion conservative morality that he hopes will be one of his principal legacies.

While he sang the praises of freedom and opportunity, and in particular the virtues of his own administration, he paid little attention to the budget deficit—even less, it turned out, than his Republican colleagues in Congress would have liked. Skating over the painful fact in domestic spending he had

called for in his budget only two days before Mr. Reagan chose to single out only his plan to end subsidies for the Amtrak railway system—not an item of pressing concern to many Americans—which he said cost the taxpayer about \$35 per passenger every time an Amtrak train left the station. There was no mention of the much more grievous austerity that he wants to inflict, for example, on the nation's students, and only a passing reference to the "great financial distress" being suffered by the farmers.

Mr. Reagan did not indulge, as he has in the past, in much Democratic-bashing—largely it seems, because he believes that the opposition is in total disarray anyhow. If that was indeed his view, the Democrats obligingly went out of their way to back him up in a 30-minute television address aired on most TV channels shortly after he had finished speaking. The ABC network decided that the most appropriate sequel to the peak time Reagan Show was the latest episode of Dynasty.

The Democrats spent \$100,000 on their film, in which an attempt at slick TV packaging, introduced by soft rock music, and reminiscent of some of Mr. Reagan's own campaign advertisements, appeared to have taken priority over substance. As the viewer looked in on a series of discussion groups for young, mainly white Americans around the country, a number

of up and coming Democratic stars disarmingly delivered what amounted to a public confession of the party's past mistakes, and a promise to do better in future.

The Democrats insisted that they were "alive and well" but they were distinctly muted in their criticism of Mr. Reagan, and some of them even sounded a bit like him as they made the case for limited government.

The Democrats said one commentator, reminded him of the "me, too" Republicans of a generation ago, when they tried to climb on to the bandwagon of the Democrats' New Deal policies. Now, he said, we have the "me too Democrats."

The most striking aspect of the Democrats' view of themselves was that it included not a single mention, not one shot, of their champions of last year's elections—no Walter Mondale, no Gary Hart, no Geraldine Ferraro, no Jesse Jackson—not even a glimpse of Teddy Kennedy.

Asked about the notable absences, Mr. Tony Coelho, the House Democratic campaign committee chairman, replied: "We don't disavow anything, we just look to the future." That, of course, was just what the 74-year-old Mr. Reagan had been doing himself, with rather fancier flights of oratory. It was far from clear that, on the strength of their own performance, the Democrats had a particularly "lifting" alternative to offer.

## Congress presented with agenda for action

By Nancy Dunne in Washington

IN HIS CALL for a "second American revolution," President Reagan presented Congress with an agenda for action. Federal stressed tax reform, economic growth, federal government shrinkage and a strong defence. The proposals included plans for:

- A tax simplification plan which would not raise total revenues or jeopardise the home mortgage interest deduction popular with the middle class. It would set the top personal rate of tax at no more than 35 per cent and possibly lower, exempt the poor from federal income tax, and increase exemptions for families. Corporate tax rates would also go down while maintaining incentives for capital formation.
- Assistance for the urban poor which would stop spreading dependency and start spreading opportunity, including enterprise zones to provide tax incentives in depressed city areas, a lower minimum wage for teenagers, job training, and encourage housing residents to own and manage their own dwellings.
- A slowdown in the growth of the major government health-care programmes (Medicare for the aged and Medicaid for the poor).
- A constitutional amendment requiring a balanced federal budget.
- A freeze in federal government spending for 1986 at 1985 levels.
- A two-year trial of the "Time Item" to allow the President to reject individual spending items.
- Continued growth in defence spending, including the MX missile and a Strategic Defence Initiative, or "Star Wars" technology, aimed at finding a non-nuclear defence against ballistic missiles.
- Support for the "freedom fighters" opposing the elected government in Nicaragua and continuation of "all facets of assistance to Central America."
- A permanently manned space station for the U.S. and its friends, providing "new opportunities for medical and technological advances."
- Elimination of costly government subsidies, including those for the Amtrak train system and the farm programme.
- Continued reduction of government red tape and regulations, including full deregulation of natural gas and further deregulation of the bus, railroad and trucking industries.
- Extra "merit pay" for deserving teachers.
- A constitutional amendment on school prayer and Congressional action against abortion.
- Expansion of the "superfund" programme to clean up hazardous waste sites.
- Legislation easing constraints on police officers in acquiring evidence legally admissible in courts and widening the use of the death penalty "where necessary."
- A new round of negotiations this year to lower trade barriers.
- Economic aid to the underdeveloped nations including a "practical programme of trade and assistance" with U.S. allies in developing "a practical programme of trade and assistance that fosters economic development through personal incentives."

## Superb delivery rouses Wall Street

THE PRESIDENT's optimistic State of the Union message received a lukewarm response from Wall Street's economic and market analysts yesterday. But investors piled into the equity market, trading more than 152m shares and sending the Dow Jones industrial average up by 8.49 to 1,290.06 within three points of its all-time record, writes Paul Taylor in New York.

The gain in stocks, however, came as bond prices sank, leaving most analysts puzzled over the market's reactions and suggesting that it was the tone of the speech rather than the content that found an echo in the markets yesterday.

Once again it was the President's "polished per-

formance," not his message's contents, which attracted most comment among Wall Street's senior economists and traders.

"I did not see anything very memorable," said Mr. Bill Griggs of Griggs and Santow, the Wall Street investment advisory firm. "But the delivery was superb."

Mr. David Jones of Aubrey Lamson added: "In terms of the bond market the President's comments caused hardly a ripple."

Many senior economists, like Mr. Griggs, saw the President's comments as more of an "expression of philosophy than an agenda" and virtually all expressed doubts about whether his remarks did anything to raise the prospects of meaningful Congressional action on the Budget deficit issue—a key market concern.

They noted that the President's re-emphasised hard line against tax increases or defence spending cuts made the prospect of significant pro-

gress on the deficit front less likely and they poured scorn on his suggestions that the U.S. could "grow its way out of the deficit problem."

"That idea is absurd," said Mr. David Jones. "Not one reputable economist I have spoken to believes that."

Nevertheless, some economists saw the President's speech as an attempt to encourage the markets.

But Mr. Fabbri also cautioned: "He is building up big expectations in the mar-

ket, therefore he also runs the risk of a big downside effect if it does not come off."

Wall Street also noted that the President's speech bore several hallmarks of the immediate impact Mr. Donald Regan is having in his new role as White House Chief of Staff.

In particular, they noted that the President appeared to be "setting the Federal Reserve Board up" as a potential "fall guy" if the economy turns sour.

However, there were some more positive reasons for some on Wall Street.

Mr. Newton Zinder, a senior vice president at E. F. Hutton, noted that there had been some concern in the markets about the President's speech and his proposed tax changes but said "there was nothing too specific in the State of the Union message so people were relieved on that basis."

Mr. Theodore Halligan, first vice president at Piper Jaffray

and Hopewell added: "President Reagan's speech was a reminder that the old-fashioned virtues of family, home and hard work are alive and well, and that Americans working together can solve domestic and world problems should give a healthy shot in the arm to investors."

By the close yesterday, Wall Street traders were still generally attributing the Dow advance to factors other than the President's speech. They also noted that the Treasury's new budget was market down slightly in late trading when it appeared that the Treasury action had not gone as well as expected.

## Tax reforms in the limelight as budget cuts take a back seat

By Stewart Fleming in Washington

PRESIDENT Ronald Reagan appeared to raise fundamental reform of the American income tax system to the top of his domestic economic policy agenda in his State of the Union address on Wednesday night, a move which is raising new doubts about the depth of his commitment to the budget message he sent to Congress earlier this week calling for painful action to cut the federal budget deficit.

Leaders of the President's own Party in Congress, who are facing the prospect of piloting unpopular budget cuts past the massed ranks of lobbyists who provide millions of dollars to finance their local election campaigns, promptly registered their dismay with the President's decision not to provide more support for the budget deficit reduction task they face.

Senator Robert Dole, the Republican majority leader in the Senate, remarked: "I would have stressed it (the budget deficit) a bit more but you can't talk about everything every time I guess." Senator Pete Domenici, chairman of the

Senate Budget Committee, regretted that Mr. Reagan did not put more emphasis on budget cutting in his address.

Mr. Dole and Mr. Domenici have been leading the efforts of Senate Republicans to construct a more politically acceptable budget deficit-cutting package than the President's proposals. But they failed to meet their February 1 deadline for putting together a more ambitious set of budget reduction measures and Mr. Reagan has provided them with no firm support for the continuation of those efforts.

The political calculations which went into the President's decision to sidestep the controversy about budget cutting are not difficult to divine.

By concentrating on his economic record and on the popular cry for reforming a tax system which most Americans believe is both unjust and too complicated, Mr. Reagan was able to strike an economic policy theme which fitted neatly into the soaring rhetoric surrounding his call for a "second American revolution" which would unleash a new burst of entrepreneurial creativity in an America which he described as "an industrial giant reborn."

"Together we can pass this year a tax bill for fairness, simplicity and growth making

this economy the engine of our dreams and America the investment capital of the world," the President said—apparently unconscious of the fact that this is the year when the twin budget and current account deficits the U.S. is running are sucking foreign capital into the country at a pace which will transform the nation into the world's biggest debtor within the next two years.

The focus of the President's address on these themes also left his Democratic Party opponents still waiting for Mr. Reagan to present them with the opportunity they have been impatiently waiting for, namely the chance to make the President pay for his decision to propose budget cuts which would strike at subsidies for federal programmes for the middle class, the elderly and the sick.

Mr. Tip O'Neill, the Democratic speaker of the House, was once again forced, metaphorically, to wring his hands in frustration after the President's speech for Mr. Reagan had given his opponents no easy targets to fire at.

"Tonight President Reagan spoke beautifully of the future he believes it promises... tonight was a night of eloquent

generalities," Mr. O'Neill said before expressing the forlorn hope that "tomorrow he must begin to inform the people of the sometimes difficult realities of the Reagan revolution."

Even on the tax reform topic, a subject which has united a diverse and powerful range of interest groups in opposition to the initial proposals the Administration has floated, Mr. Reagan contented himself with vague over ground in vague terms.

Thus he associated himself with the most popular and superficially appealing elements of the tax reform proposal floated by the Treasury last November such as the proposal that the top rate of income tax should not be higher (and may be below 35 per cent), the rejection of any move to end tax relief on home mortgages and the aim of exempting individuals near the poverty line from income tax.

He glossed over the fact that the tax reform plan would reduce the value of mortgage interest deductions, and that marginal rates of tax for the poor would remain outrageously high. But he hinted at an accommodation with the powerful business interests lining up against the Treasury's suggestion that investment

incentives worth billions to business should be reduced. "We will be reducing corporate tax rates while maintaining incentives for capital for reform is clearly tempting to the President and he has now given Mr. Reagan to the Treasury Secretary Mr. James Baker, with an unrivalled reputation as a shrewd deal-maker who may be able to refashion the Treasury tax reform plan left by his predecessor Mr. Don Regan in a way which will divide the powerful opposition lined up to the initial proposals.

But it is the President's

evident reluctance to address the burning issue of the spending curbs needed to cut the budget deficit which will be a source of unease on Capitol Hill and Wall Street.

"The best way to reduce deficits is through economic growth," Mr. Reagan told his audience. He also reminded them that "each added percentage point per year of real GNP growth will lead to cumulative reduction in deficits of nearly \$200bn over five years." He warned the Federal Reserve Board against keeping interest rates artificially high or needlessly holding down growth.

He put all his authority too

behind the proposition. "One thing that tax reform will not be is a tax increase in disguise. And he reaffirmed the tough position he has staked out in the defence budget—"spending for defence is investing in things that are priceless: peace and freedom."

If there is a budget compromise aimed at reducing the deficit which Mr. Reagan is ready to embrace there was no hint of it on Wednesday night. Clearly, the President is being left on tenterhooks by a shrewd negotiator who is keeping his hand well hidden knowing that his opponents have no option but to reveal theirs.

## Head of Brazilian shipbuilding group commits suicide

By Andrew Whitley in Rio de Janeiro

SR PAULO FERRAZ, the president and principal shareholder of Companhia Comercio Navegacao, CCN, one of Brazil's leading shipbuilders, killed himself yesterday morning.

CCN's accounts are being investigated by a government commission as part of a wide-ranging inquiry into the use of Government loans and federally backed bank credits advanced under the country's \$3.3bn (£2.9bn) Second Naval Construction Programme.

Senior Ferraz, who was 61, was a dominant figure in the fast growing Brazilian shipbuilding industry for over two decades. Under his control his group grew into a nine-company empire which included a wholly-owned shipping line Mercantul and a half share in a bulk cargo company CBGT.

Under licence from Austin & Pickersill of the UK, CCN built 45 general cargo vessels of the SD 14 type with a dead weight of 15,000 metric tonnes for Brazilian carriers.

But in recent years the Rio de Janeiro-based shipyard has been losing money steadily. It has shown a profit only once in the last five years and faces a complete shutdown after July

if new orders fail to appear.

Its problems have been complicated by the official inquiries under way in Brazil into both the shipbuilding industry's accounts and the activities of Sunnam, the former merchant marine authority responsible for financing the national shipbuilding programme, now coming to an end.

CCN is believed to have had the largest foreign debt outstanding—put unofficially at \$245m—and Sr Ferraz acknowledged to the Financial Times last week his concern over the issue.

Pending the outcome of the Sunnam investigation, which is looking into irregularities in the use of funds, Petrobras, the state oil company, recently announced negotiations with Brazilian shipyards for the construction of eight new vessels worth \$295m. Three of these had been earmarked for CCN.

Control over the group has been taken over by Senator Helio Paulo Ferraz, 38, the former president's son, who had been vice-president of the group.

## New York court to hear Bhopal cases

By Terry Dodsworth in New York

A PANEL of U.S. judges has decided that pre-trial hearings into damages claims relating to the toxic gas disaster at Union Carbide's Bhopal plant in India will be heard in a New York Federal Court.

The judges' decision brings together 18 of the 39 suits known to be outstanding in the U.S. against Union Carbide. Others are likely to be consolidated later under a system which lumps claims together to simplify the legal proceedings.

The judges said the Southern District of New York was an appropriate location for the pre-trial litigation because Union Carbide was incorporated in New York.

Union Carbide said that it fully supported the judges' decision—and expected that shareholder suits, which are also claiming damages against the group, will be consolidated in the same place.

The initial litigation in the case is expected to centre on the issue of whether it is appropriate to hear the damages claims in the U.S. Legal opinion is sharply divided on this issue, with many lawyers arguing that precedents suggest the case should go to the Indian courts.

By the beginning of this week, a total of 39 civil suits had been lodged against Union Carbide in the U.S.

## Latin American debt crisis 'not yet over'

By Robert Graham in Santo Domingo

PRESIDENT Salvador Jorge Blanco of the Dominican Republic warned yesterday of a "dangerous" sense of relief among some international banks and industrialised countries that the Latin American debt crisis was in the process of being resolved.

Inaugurating the third Ministerial meeting of the 11 countries in the Cartagena group of Latin American debtors, President Blanco said some progress had been made in debt re-negotiation, but the crisis was continuing. He insisted it was essential to fight against "the full sense of optimism" before it was too late and social pressures were unleashed that could undermine democracy in the region.

These comments had a special poignancy since the Dominican Republic in the past months has been one of the worst social unrest resulting from economic austerity and implementation of International Monetary Fund policies.

Since last June the Dominican Republic has been hit by a wave of strikes and shop closures that has left many businesses in Santo Domingo paralysed in protest over sharp price increases.

The Cartagena group, which first met last June, consists of Argentina, Bolivia, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

## Peru raises import duties

THE PERUVIAN Government has increased import duties by between 1 and 10 points on all merchandise except basic inputs for the pharmaceutical industry and products which pay less than 10 per cent of their CIF value, especially basic foods, Doreen Gillespie in Lima writes.

Equipment for reconditioning the obsolete fishing fleet and kits and vehicles for public transport have also been exempted from the increase.

The tariffs increase in relation with rates already paid.

## Chile 'near IMF deal'

SANTIAGO—Chile's Finance Minister, Sr Luis Escobar, said yesterday that he expected to finalise an agreement with a visiting International Monetary Fund (IMF) team next week.

He told a news conference he would give details of the agreement next week but declined to say how much money Chile was seeking from the IMF or whether it was seeking a two-year or three-year accord to replace the standby agreement that expired last week.

"We have an agreement practically complete with respect to the macroeconomic policies, which should be reflected in the agreement," he said.

## Record U.S. goods deficit

THE U.S. merchandise trade deficit hit a record \$61.5bn in 1984, up sharply from \$61.1bn in 1983, the Commerce Department said yesterday, writes Stewart Fleming in Washington.

In the fourth quarter the deficit declined significantly from the \$33.1bn recorded in the third quarter to \$22.9bn.

Last month, the Commerce Department reported that the trade deficit for 1984 was \$123.7bn. The discrepancy between the two numbers reflects the different statistical methods being applied.

## Stockman backs budget proposals

By Stewart Fleming in Washington

MR DAVID STOCKMAN, President Ronald Reagan's budget director, backs the centre of a political storm over his remarks about soaring defence spending this week, yesterday defended Administration budget proposals in Congress.

Earlier in the week Mr. Stockman sharply criticised the military establishment for not trimming their defence spending request, suggesting that the military is more interested in its generous retirement benefits than the nation's security.

Those comments drew a sharp rebuke from Mr Caspar Weinberger, Defence Secretary, who charged that Mr. Stockman had "defamed" military people and veterans.

Mr. Stockman's office subsequently issued a statement saying that he "in no way intended to impugn the patriotism or devotion of the military, but was merely expressing personal frustration with bureaucratic resistance, not limited to the defence department, to reform."

Mr. Stockman's comments are just one sign of the confusion that appears to exist within the Administration about budget policy.



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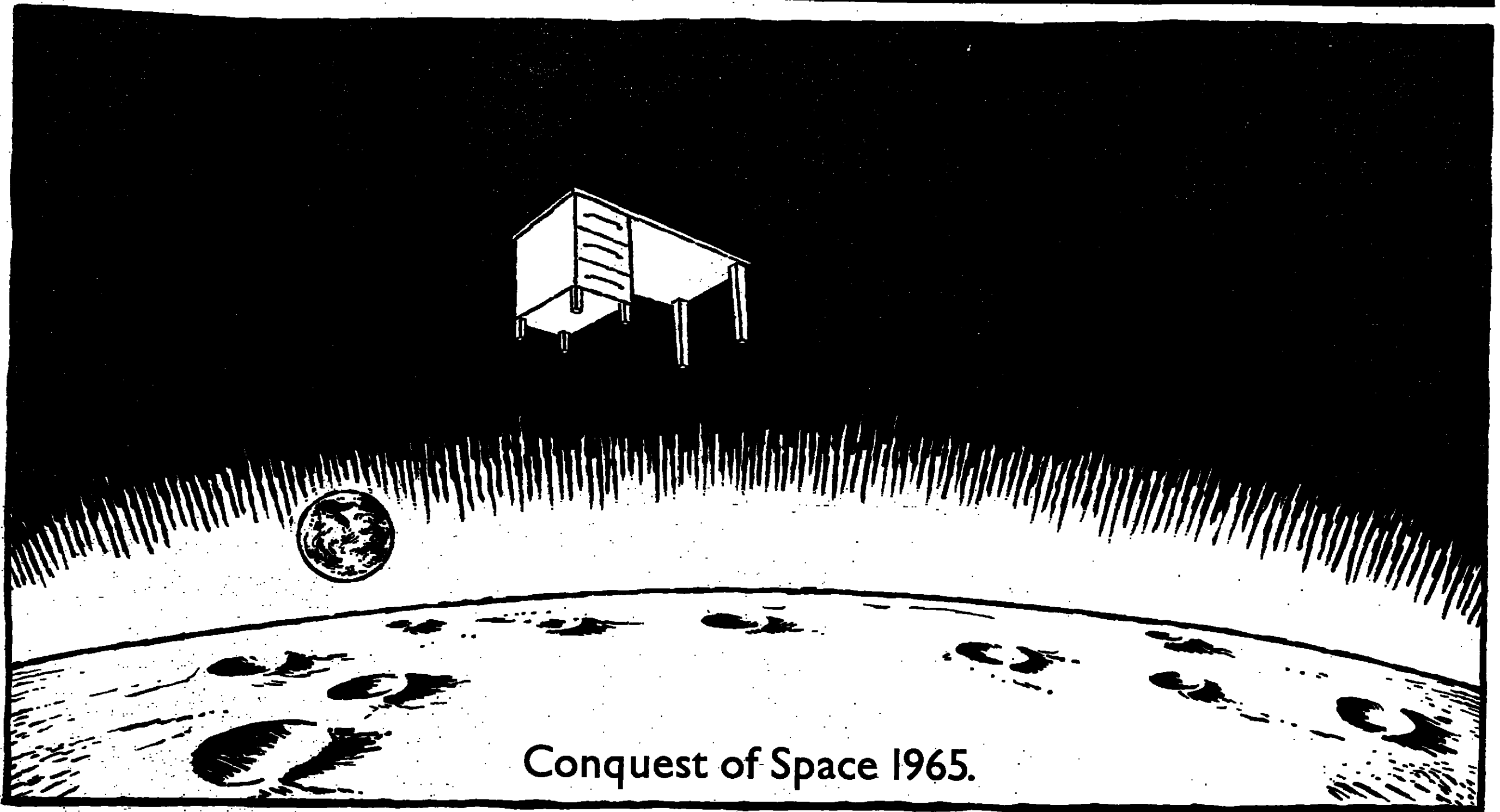
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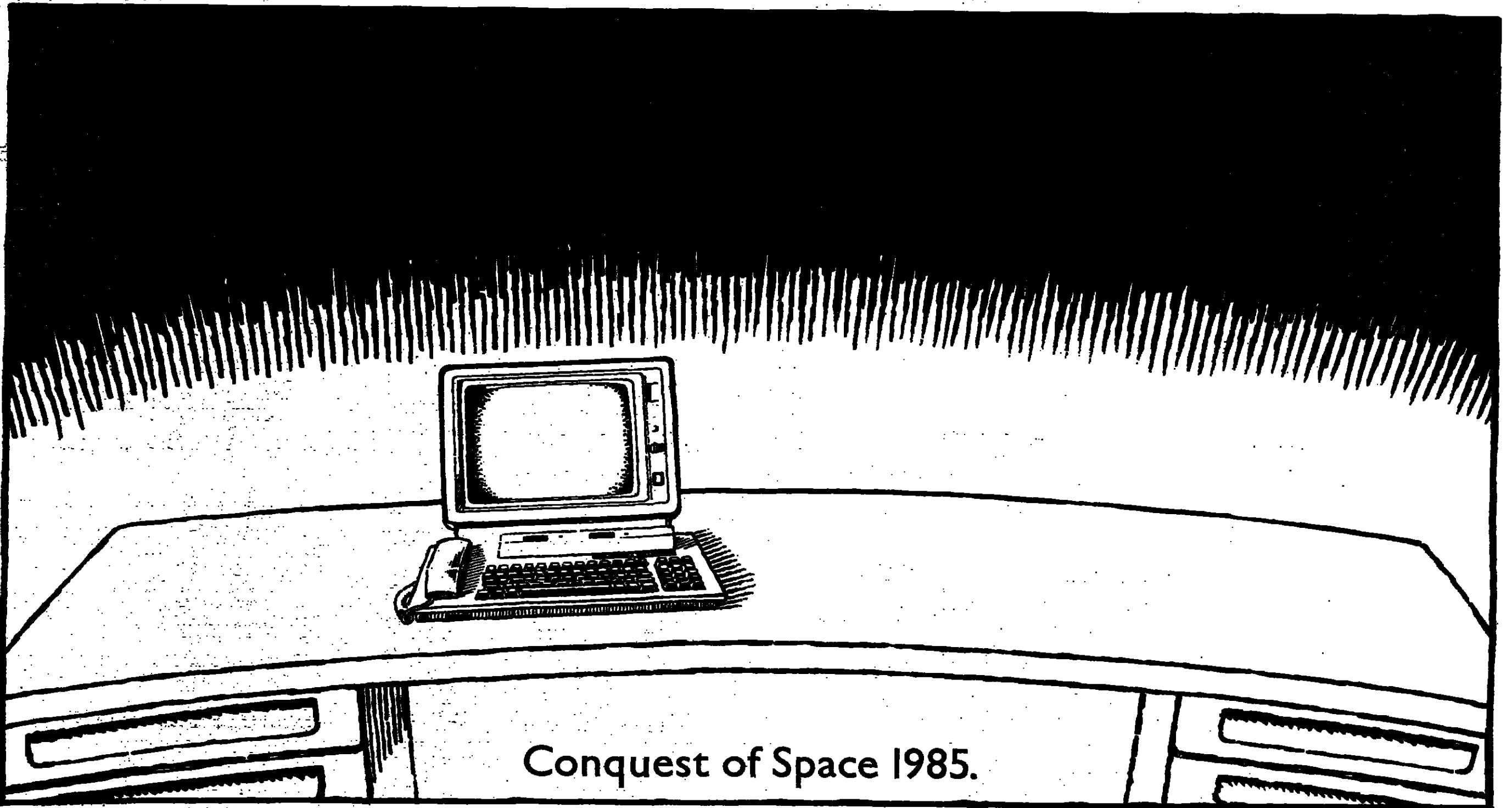




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## UK NEWS

## Miners fail to reopen pit talks 'without conditions'

BY JOHN LLOYD, INDUSTRIAL EDITOR

THE REMORSELESS attrition of the miners' strike will continue. The National Union of Mineworkers (NUM) executive yesterday made a fruitless attempt, with the aid of the pit supervisors' union, Nacods, to persuade the National Coal Board (NCB) to reopen negotiations.

The move, which took members of the NUM executive by surprise, blocked various proposals from the NUM areas to discuss such strategies as returning to work without an agreement or demanding further assistance from the Trades Union Congress (TUC). There was general agreement that those tactics had been delayed rather than removed - especially if the return to work at the pits continues unabated.

At the same time, it became clear yesterday that the coal industry's third union - the British Association of Colliery Management (BACM) - now agrees with the NCB that new talks between the NCB and the NUM must, for the moment, be ruled out. Leaders of BACM believe, however, - in common with

some senior NCB officials - that talks should get started once more when at least 50 per cent of miners are no longer on strike, which they reckon will take only a further two or three weeks.

A unique joint meeting between the NUM and Nacods produced a joint statement that called on the board to "immediately resume full negotiations without pre-conditions."

A separate resolution adopted solely by the NUM said that if the NCB rejected the joint request it would turn to a body such as Acas, the conciliation service, to open a public inquiry into the dispute. The NCB responded with a statement that once more firmly shut the gate on any hopes of talks that did not include on the agenda its right to close uneconomic pits.

Attention, therefore, once again focuses on the drift back to work, which many in the NCB are confident will continue to accelerate. Yesterday saw 203 new faces return to the pits, making a total of 3,541 this week so far.

Mark Meredith writes: Scotland

is emerging as a serious casualty area in the strike in terms of lost pits.

A total of 12 coal faces representing a third of the Scottish deep-mined coal capacity have now been lost, according to the NCB, although the miner's union disputes the closure decisions.

Of 12 separate pits before the strike, two have been lost altogether, another is likely to be shut and vital sections of two other pits have been shut down.

The final loss of jobs among the 12,000 Scottish miners might be more than 3,000, although possible reinstatement and transfers make the figure hard to pin down.

Most serious is that whatever the Scottish area's plans for closing uneconomic pits in Scotland, the strike has hit two of the coalfields it has wanted to keep open.

The future of the entire Seaford-Francis complex in Fife was not considered a prime target for closure by the board. Five this week closed Francis with the loss of 500 jobs and the main production face at Seaford.

Mark Meredith writes: Scotland

## Coal exports from continental stocks may be ended shortly

BY MAURICE SAMUELSON

THE UK coal and electricity industries may soon end the arrangement whereby the National Coal Board (NCB) has been supplying overseas customers from strategic coal stocks held by the Central Electricity Generating Board (CEGB) at continental European ports.

With the miners' strike stopping coal shipments out of the UK, the NCB has been meeting export orders by drawing on coal held by the CEGB at Amsterdam, Rotterdam, Antwerp and Ghent - the so-called ARA ports. But with the strike apparently entering its final phase, the CEGB wants to keep some of that coal as a bargaining counter in negotiations about supplies from the NCB.

Since the start of the strike, the NCB has taken nearly 3m tonnes of coal from the CEGB. It has sent it in 265 shipments to 29 customers in

14 countries, in Europe, Scandinavia and the Mediterranean. Most has been carried in vessels as small as 1,500 tonnes, but eight bulk carriers of about 60,000 tonnes have been diverted while en route from Australia. These have been instructed to discharge at coastal power stations in Denmark, France and Greece.

This unprecedented arrangement, in which the NCB and CEGB have co-operated closely, has helped the NCB to cover almost half its current orders and avoid the risk of losing long-term contracts. It has also helped marginally to improve the CEGB's cash flow.

The CEGB still has about 1.8m tonnes stocked in continental Europe, which the NCB is keen to transfer elsewhere. The CEGB apparently prefers to keep at least

some of it under its own control, although its attitude would change if the miners' strike gained a new lease of life.

Although the NCB is pleased that it has been able to supply so many customers, it is likely to point out that keeping a strategic buffer stock of coal has been a fiasco. Since the strike began the CEGB has moved none of the coal to the three Thames estuary power stations for which it was originally designated.

It did not do so because of the threat of action by members of the National Union of Seamen and other unions.

The remaining coal at the ARA ports is packed hard to prevent it from overheating and igniting during long-term storage. But it could become accessible in a few days if the CEGB decided to release it.

## Mercury and BT start legal battle

A LEGAL BATTLE has broken out between British Telecom (BT) and its small competitor, Mercury Communications, after their failure to agree on terms for interconnection of their telecommunications networks. Guy de Jonquieres writes.

The complex dispute has important implications for Mercury's efforts to win a share of the UK telecommunications market. The row also creates uncertainties about the role and authority of the Office of Telecommunications (OfTel), the official regulatory body.

BT and Mercury, a wholly-owned subsidiary of Cable and Wireless, both said yesterday they had instituted legal proceedings in an effort to clarify the position on interconnection.

This follows a request last week by Mercury that OfTel should intervene in the deadlocked negotiations to decide what the interconnection terms should be. Mercury argues that its request is consistent with provisions in the operating licences which it and BT received last year.

BT insists that OfTel has no jurisdiction in the affair. It claims that the legal basis for interconnection arrangements is a "heads of agreement" which it signed with Mercury last June. It is seeking a declaratory judgment in the Commercial Court that the document is binding on both parties.

Mercury argues that the heads of agreement was merely intended to provide an interim framework for negotiations and has no legal status. The company claims that the document has been superseded by the operating licences and the regulatory regime supervised by OfTel, which took effect last August.

At the centre of the row is Mercury's demand for unrestricted freedom to use BT's local circuits to connect customers to its own planned national telecommunications network, which is due to be completed next year.

BRITISH Medical Association urged the Government to bring in legislation to end sports sponsorship by tobacco companies. Buckingham Palace is to review the granting of royal warrants to cigarette manufacturers.

SALES of heavy commercial vehicles rose by 14.3 per cent in January compared with the same month a year ago. Other commercial vehicle sectors remained depressed, however. Light van registrations were down by 5 per cent while medium and heavy van sales dropped by 6.3 per cent.

COTTESLOE Theatre, London, one of the three stages of the National Theatre, is to close in April. Sir Peter Hall, director, said it was doubtful whether the National Theatre itself could survive because of inadequate funding from the Arts Council.

NORTHERN IRELAND's gas industry is to renew efforts to secure a supply of natural gas from the Irish Republic. A plan to pipe gas from the Kinsale field off the republic's coast was abandoned last September. Rising costs and the loss of customers to other fuels was blamed.

THE GOVERNMENT will introduce legislation in the next parliamentary session this autumn to abolish all legal restrictions on shop opening hours.

Ministers have decided to implement the recommendation of last autumn's Audit report, which proposed that all restrictions on late night and Sunday shop opening times should be ended. In England and Wales at present, most forms of Sunday trading are illegal.

MONTANO SECURITIES, Los Angeles-based equity dealer, is to open an instantaneous trading service in U.S. over-the-counter stocks in London by the end of this month. The group, which set up a London office in December, will shortly establish a computer link with the U.S. National Association of Securities Dealers Automated Quotation System (Nasdaq), an electronic security market that includes 4,500 securities.

The Leatherhead Food Research Association in Surrey, with more than 800 member companies in the food processing industry, has been studying the implications of government approval.

Dr Alan Holmes, its director, believes that "we are on the edge of a very exciting industry," which will offer the public more fresh foods with less risk of food poisoning.

Last spring he recruited a health physicist, Dr Vanessa Wilkinson, to study the questions of industry and consumer acceptance. Dr Wilkinson says that chicken and seafood are obvious choices for irradiation because of the amount of food poisoning caused by salmonella infection at present.

Strawberries and mushrooms are two examples of premium foods that would benefit from the higher shelf-life imparted by irradiation. Irradiated strawberries may retain their flavour and freshness for two weeks or more.

Sir Arnold says his committee has found no evidence of any residual radioactivity in irradiated food. Its report will be a general recommendation on safety and will not approve any particular foods for sale to the public.

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In 1983, the Codex Alimentarius Commission adopted the Codex general standard for irradiated

## Law planned for telephone taps

THE GOVERNMENT is proposing

legislation that would clearly establish its rights to authorise police, security and customs officers to tap telephones and intercept mail.

A White Paper (policy document) published yesterday by the Home Office also recommends that a five-man tribunal should be established to investigate complaints that interception of telephone calls and mail had been improperly authorised. Unauthorised interception would be a criminal offence.

The Government could be required to pay compensation if the tribunal ruled that there were insufficient grounds for authorising a phone tap or mail to be intercepted. The proposals follow a judgment last August in the European Court that ruled that Britain's phone-tapping procedures, although legal, were too vaguely defined in law.

The object of a new Bill, the White Paper says, would be to incorporate existing piecemeal provisions - some of which have their origins in the 18th century - into a single "clear statutory framework" within which the interception of communications on public systems will be authorised and controlled in a manner commanding public confidence.

The White Paper states that important safeguards will be maintained and interception will be authorised only for clearly defined purposes. It argues, however, that "properly controlled interception of communications for certain limited purposes is not only justified but essential in the public interest."

Under the legislation, interceptions could be authorised:

● In cases involving criminal offences, where a person with no cri-

The Government says its proposals on phone-tapping and mail interception will satisfy the European Convention on human rights and freedom, which stipulates:

Everyone has the right to respect for his private and family life, his home and his correspondence. There shall be no interference by a public authority with the exercise of that right, except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals or for the protection of the rights and freedoms of others.

Everyone whose rights and freedoms as set forth in that convention are violated shall have an effective remedy before a national authority, notwithstanding that the violation has been committed by persons acting in an official capacity.

minial record might face imprisonment of at least three years; or less serious offences involving large numbers of people or large sums of money.

● To prevent offences involving violence.

● To prevent breaches of national security involving either terrorist or other subversive activity, or to support the Government's defence and foreign policies.

Legislation would also empower the Home Secretary to "issue warrants where they are necessary for safeguarding the economic well-being of the UK, but only if they are for the purpose of acquiring information about matters outside the country. This provision will be framed so that domestic developments cannot give rise to interception on the grounds that they affect the economic well-being of the country."

The White Paper adds: "It is an important part of the Government's foreign policy to protect the country insofar as it can from adverse developments overseas affecting the well-being of the economy."

"Foreign intelligence which may be necessary in support of the Government's foreign policy will on occasions include foreign intelligence which is necessary for the protection of the economic well-being of the country."

Before authorising interception, the Home Secretary would have to be satisfied that other methods of investigation had either been tried and failed or would be unlikely to succeed. There would also have to be good reason to think that an interception would be likely to lead to an arrest and a conviction.

An improperly issued warrant could be quashed by the tribunal,

which would be made up of "legally qualified persons."

The Bill will apply to the interception of all communications on the UK's postal or public telecommunications systems and those in other countries. It will also:

● Make it a criminal offence, with a maximum penalty of a £2,000 fine or two years' imprisonment, or both, to tap phones or intercept mail without authorisation from the Home Secretary.

● Establish controls over the use of intercepted "materials" which will generally be inadmissible in legal proceedings, ensuring that interceptions can be used only as an aspect of investigation, not of prosecution.

● Create a post of commissioner to scrutinise the operation of the rules and make an annual public report on the findings. The commissioner would also assist the tribunal.

● Require the Home Secretary to cancel any warrant, as soon as it was apparent that it was no longer necessary. Warrants would be valid for a maximum of six months, after which the Home Secretary would have to re-examine the case before deciding whether to renew the authorisation.

The tribunal will conduct its hearings in private. "It would be necessary to publish means whereby those involved in serious crime or espionage could learn the basis on which their activities had come to notice or, perhaps more damaging, confirm whether their activities had come to notice," the White Paper says. It claims that investigations and lives might be put at risk if sensitive information was made public.

## European rights ruling set precedent

BELGIUM - Telephone tapping is forbidden by law and there are no exceptions, according to the office of the Secretary of State for Communications, Paul Chasseinier in Brussels.

Law officers are permitted to establish the existence of a telephone conversation, through the telephone authorities, in their search for evidence.

CANADA - Telephone tapping warrants in Canada are issued by judges applying the test of whether police requests are "in the best interest of justice," Bernard Simon in Toronto writes.

The judges can set terms and conditions to protect the public interest. Toronto judges, for example, often require police to turn on tape recorders attached to public telephones only when a suspect enters the phone booth. Warrants run for up to 60 days.

The use of phone-tapping has been significantly extended since precise rules were first given in the 1974 Protection of Privacy Act. Under amendments in 1977, investigations into 50 specified crimes may justify phone taps, as well as any other crime with a penalty of more than five years in prison if committed as part of an organised pattern of crime.

Most warrants in Canada are issued for narcotics investigations. They are also used frequently for

FT CORRESPONDENTS report on the laws on phone-tapping in other Western countries and (below) on the case of Mr James Malone, whose victory in the European Court of Human Rights led to the UK Government's proposals announced yesterday.

MR JAMES MALONE, an antique dealer from Dorset, Surrey, won his case against the British Government in the European Court of Human Rights last August on the ground that the law against telephone tapping and interception of mail was too vague and arbitrary. Quentin Peel in Brussels writes.

Although the court did not reject the principle of telephone tapping in a democratic society, it did suggest that adequate

guarantees of protection against abuses should be incorporated into any legislation.

It reached the same conclusion in the Klaus case brought against the West German Government, although in that instance it decided that German legislation did provide adequate guarantees.

Mr Malone, who unsuccessfully tried to sue the Metropolitan Police in the High Court in London for tapping and intercepting his mail, had charged the British authorities with interfering in his private life and correspondence. The surveillance had been carried out by police investigating suspected offences of dishonest handling of stolen goods, charges on which Mr Malone was subsequently acquitted.

which the taps are carried out - through requests from the Defence or Interior Ministries for alleged security risks, and at the demand of prosecuting authorities in criminal cases - is kept a secret.

The Government's inaction is ironic in view of the strong criticisms made against the previous right-wing administration over telephone tapping of politicians and journalists during the 1970s.

UNITED STATES - Wire-tapping by federal agents has been tightly controlled since 1983, Nancy Dams in Washington writes.

Before a tap is instituted it must be approved by a U.S. district court judge after the investigating agency has proved that it has exhausted all other investigative techniques and that it has solid grounds for suspecting criminal activity.

The court order is valid for only 30 days and an affidavit must be submitted after that time. Without a court order, wire-tapping is a federal offence, punishable by a maximum sentence of five years' imprisonment and a \$10,000 fine.

From January to May 1984 (the last period for which statistics are available), federal judges approved 154 wire taps for the Federal Bureau of Investigation, a large increase over previous years due to the agency's expanded counter-drug programme.

## Takeover to strip workers of union rights

BY PHILIP BASSETT, LABOUR CORRESPONDENT

BELL CANADA International, the North American computer services company, is making its purchase of a subsidiary of Cable and Wireless, the UK telecommunications group, conditional on the stripping from the company of all collective bargaining rights.

This stipulation is thought to be one of the first instances in Britain of a company - particularly a foreign-based one - making as a condition of its purchase of another the effective removal of trade unions.

BCL's condition of the removal of bargaining rights from the white-collar Association of Scientific, Technical and Managerial Staffs (ASTMS) led to a one-day strike yesterday by some of the company's

engineers at its London headquarters.

BCL, a wholly-owned subsidiary of Bell Canada Enterprises, is buying four Cable and Wireless subsidiaries in a deal worth just less than £10m (\$14m).

ASTMS had held sole bargaining rights for about 200 staff in one of them, Cable and Wireless UK Services, a third-party computer maintenance company, since its formation in 1981, and has had negotiating rights throughout C&W for more than 40 years.

In a letter to all staff Mr Gabby Shaw, C&W UK Services managing director, said: "Recognising that staff play a key role in achieving corporate aims, BCL considers it essential that the new company

adopts a positive approach to pay and conditions that will provide the necessary motivation and flexibility for individual advancement."

"BCL considers that its employee philosophy is best suited to discussion and consensus between each individual and the company's management, as opposed to collective representation."

Accordingly, ASTMS has been given 30 days' written notice of the termination of all its agreements with the company, covering union recognition, collective bargaining, redundancy and other issues.

The union is concerned that the move is setting a precedent. Mr Jim Mercer, ASTMS London divisional

officer, said: "It's GCHQ for the private sector (a reference to the British Government's banning of trade unions at its Cheltenham communications headquarters last year) but it's being done for profit, as distinct from security reasons, however spurious."

Mr Mercer, insisting that there had been no history of particular industrial relations difficulties between the company and ASTMS, said the union's objective was to secure a firm agreement that "we can continue."

Cable & Wireless said it had been concerned to find a buyer for the service company which would be able to guarantee a future for the staff concerned.

## Private-sector hospitals may cut drugs bill

Financial Times Reporter

A NUMBER of Britain's large private hospital chains are considering methods for limiting the number of drugs they dispense, in accordance with recent government proposals.

Mr Bob Graham, managing director of BUPA, which runs 10 hospitals in the UK, said it would be studying the Government's restricted list closely when it was released in the next few weeks. "We have to watch our costs, too," he said.

He pointed out that BUPA, in common with some National Health Service hospitals, already monitored the drug prescribing habits of its doctors with a view to holding down costs. The new list, which is intended to save the government £100m from its £1.4bn drugs bill, has been sharply criticised by many in the medical profession for infringing doctors' freedom to prescribe as they choose.

The UK subsidiary of AMI, the largest provider of private hospital beds in the UK, said yesterday it was considering the issue of a limited list. It plans "close consultation" with its medical advisory committees on the subject.

Other hospital groups, it is understood, are also studying the proposals with a view to instituting some control over the prescribing policies of their doctors. The Government's list is mainly aimed at drugs used to treat minor conditions. That means the private hospitals' moves would not have an impact on drug sales unless they were extended to cover more serious illnesses.

## Safety clearance for food radiation process

BY DAVID FISHLOCK, SCIENCE EDITOR

THE GOVERNMENT'S advisers on food safety will give approval for a technique for preserving perishable foods, using nuclear radiation, next month.

A Department of Health committee can find no safety hazards for foods treated to internationally recommended standards of radiation. The committee's report, in the final stages of drafting, is expected to go to ministers in late March or early April, Sir Arnold Burgin, its chairman, said yesterday.

Sir Arnold, one of Britain's leading medical scientists, is master of Darwin College, Cambridge, and a part-time director of Amersham International, the radioactive drugs company.

The Burgin report is expected to provide a fresh public debate in Britain about nuclear radiation before any government approval is given for food processing by irradiation.

Approval of the process for at least one food has been given by governments in 26 other countries. Sir Arnold said his committee, which was formed three years ago, had been unable to find any evidence that irradiation of food was a harmful process.

The study in Britain began after a favourable report in 1980 from a United Nations expert committee drawn from three of its agencies - the World Health Organisation, the Food and Agricultural Organisation, and the International Atomic Energy Agency. That recommended the acceptability of food irradiated up to an overall average dose of 10 kGy.

In 1983, the Codex Alimentarius Commission adopted the Codex general standard for irradiated

food, which rekindled the interest in the food processing industry in the technique.

The Burgin committee was asked to evaluate the UN report and review any new data on food irradiation.

Sir Arnold says his committee has found no evidence of any residual radioactivity in irradiated food. Its report will be a general recommendation on safety and will not approve any particular foods for sale to the public.

The Leatherhead Food Research Association in Surrey, with more than 800 member companies in the food processing industry, has been studying the implications of government approval.

Dr Alan Holmes, its director, believes that "we are on the edge of a very exciting industry," which will offer the public more fresh foods with less risk of food poisoning.

Last spring he recruited a health physicist, Dr Vanessa Wilkinson, to study the questions of industry and consumer acceptance. Dr Wilkinson says that chicken and seafood are obvious choices for irradiation because of the amount of food poisoning caused by salmonella infection at present.

Strawberries and mushrooms are two examples of premium foods that would benefit from the higher shelf-life imparted by irradiation. Irradiated strawberries may retain their flavour and freshness for two weeks or more.

Sir Arnold says his committee will shortly wind up its work on irradiated foods, but will continue to study the safety of novel foods such as the mycoprotein project of RHM, the foods group, and Imperial Chemical Industries (ICI).

THE GOVERNMENT'S fight to contain the budgets of high-spending local authorities (rate capping) is practically over - bar a lot more shouting.

Although the 18 councils to have their expenditure and rates (property taxes) limited by statute may not conform to all the Government's deadlines, it now seems likely that most of them will eventually make a legal rate and budget according to the Government's command.

Rates are levied by authorities according to values assessed on domestic and commercial properties. The funds produced are used chiefly to provide local services to a community.

The list of councils to be rate-capped was announced last July under the controversial Rates Act, instigated by the Treasury to ensure that control of local government finance would pass away from both local councils and the increasingly

fragmented Environment Department to the Treasury.

Since then, all the councils involved have refused to legitimise the Act by negotiating with the Government. By refusing to ask for increased rate or expenditure limits, the councils have denied themselves the right to provide a higher level of services than will now be possible.

They have given the Government a headache by threatening total non-co-operation to the point of illegal behaviour that might lead to a breakdown of services, personal bankruptcy and disqualification from office, and a level of disruption, particularly in London, that might have been so politically unacceptable to parliament as to have forced some sort of retreat or compromise by the Cabinet.

By patient tactics, Mr Patrick Jenkin, Environment Secretary, appears to have won the day. He has kept open all offers of meetings but

has not yielded anything, the councils having failed to deliver their evidence and ask for softer limits with which they would then be prepared to comply.

Both he and the council leaders have embarked on a lengthy and tedious propaganda exercise, each trying to paint the other as intransigent and inflexible. It all sounds very hollow, but keeps them busy.

All the signs are that this bluster will continue for as long as possible. The councils want to embarrass the Government and want as much publicity as possible to try to communicate to the public their view that any cuts in the offering are the result of central rather than local government policy.

Sixteen Labour-controlled councils among the 18 are unified in their verbal defiance and may be late in setting their rates.

The timetable now looks like this. Orders enforcing the rate and expenditure limit for the four highest

spending councils were approved by parliament last week and cannot be changed. These councils must set a budget and rate not higher than the limit by March 10.

Orders for the other 14 councils are expected to be laid next week, after which no changes can be made. The rate becomes effective from April 1. All ratepayers can refuse to pay any part of their rate bill in a rate-capped authority which is based on a rate higher than the limit.

The signs are that behind the defiant and united rhetoric there is neither the personal will nor, in most cases, the political possibility of widespread law-breaking.

Most councillors privately draw back from the prospect of bankruptcy, the ambitious admit that disqualification from public office would be too much to accept, and the realists admit that it would be impossible to get majority support for illegal action in any of the rate-

capped councils - except possibly Hackney, in London, which's rates are being cut.

In that sense, it is becoming clear that the councils have abandoned their rhetorical tactics which they cannot carry in practice.

An alternative strategy, if it existed but not adopted, was to run for as long as possible within the law, without cutting manpower or services, and then announce that under the Government's cap the council could no longer operate.

The Government would then be handed the keys of the town halls and invited to step in the following Monday and snaffle all the services cuts and staff dismissals necessary to bring the council within the legal expenditure limit.

That repeated several times, was always the civil servants' nightmare - particularly if it happened in London across a swathe of the capital.



## FINANCIAL TIMES SURVEY

Friday February 8 1985

Financial mergers, new technology and planning restrictions are straining the property industry's ability to provide suitable buildings in the traditional City core. The Square Mile is bursting at the seams.

## Core concern over market revolution

By William Cochrane

A WAVE of reforms has begun to sweep through the UK securities industry opening new opportunities and posing new demands on the City of London property market. Since June 1983 more than 40 betrothals between banks, brokers, jobbers and other parties have been recorded, according to Valin Pollen's Feedback newsletter, and others are still being lined up.

How these and other changes will affect the property industry remains a subject of debate, but already an impact is being felt on arguments about the relative merits of locating in the heart of the City or on its fringes. A crucial role will also be played by the City's planners. Their local plan now under discussion will determine whether buildings have to be retained or can be demolished to make way for new.

The changes taking place in the City as a result of the relaxation of Stock Exchange rules on mergers between financial institutions, the Gower

report, and the continued growth of the Eurodollar and other markets, will all lead to pressure for growth in the central office core," according to agents Richard Ellis.

In many cases the shape and the structure of the emerging financial institutions and the arrangements made for regulating them will themselves affect property requirements and locations.

"The City's new financial structures are encouraging both rationalisation within firms which are partners to the mergers, and a tendency to draw them together in one building," Mr Geoffrey Pentecost, of Jones Lang Wootton says.

"This could encourage fragmentation of a sort in the future—that will depend on how the City regulates itself—but our view is that this will not necessarily mean physical separation of functions."

New technology is also making great demands on buildings, Mr Jeremy Mackay-Lewis, an architect, points out. "Only 10 per cent of the floor area of buildings in the City meets the need of users." This means new

buildings would have to be created and this new generation would have much higher rents. There is indeed some evidence that this is already happening. Latest rents, for Greycourt/Rosehaugh's Finsbury Avenue development, one of the new fringe giants, are more than £20 a sq ft. This is a significant step from Greycourt's earlier Cutlers' Gardens scheme which saw first lettings at £16 a sq ft when City core rents were £32.

However, he does not see this leading to gaps in the central core. "The small-to-medium-sized foreign banks will wish to remain."

Not everyone agrees, however, that large multi-featured buildings on the periphery will provide the main thrust of future City development. Mr William Woodward-Fisher, of Chestertons, believes demand is cyclical, and fashion even more so.

"Looking back at the office market two years ago is revealing," he says. "There was a strong feeling that small, prestige headquarters buildings in the City were in, and that large-scale development was a thing of the past."

Decentralisation, which had calmed down in the early 1980s, was gathering pace again. There was a strong feeling that decentralisation and an improvement in communications would

lead to companies withdrawing from the centre of London, leaving only senior managerial staff. "It was felt that a lot of people would end up working from terminals at home."

Demand for large buildings will diminish although top quality new buildings with all modern amenities built to the highest specification may increase their popularity, he says. "What will not be so acceptable is secondary refurbishment or buildings behind period facades."

He sees conflict developing between planners and the developers. "The City of London draft plan will come to be regarded as a fine example of the short-sightedness of the planners in not adapting to changing times," he concludes.

Costs Comparatively recent buildings could also be vulnerable, according to Mr Charles Sanderson, of Savills. "Sub-standard 1960s buildings with low ceiling heights which do not permit introduction of modern services must be written down to site value and demolished," he says.

This is already being done. Last month London & Metropolitan Estates, a subsidiary of London & Edinburgh Trust and Balfour Beatty, announced a 250,000 sq ft development on the site of Britannic House North, the old BP building in Ropemaker Street, off Moorgate.

But it all costs money. Last year we reported a site value of £22m for London and Edinburgh's other big city scheme, Billingsgate, plus more than £44m estimated to complete the development. But this produced a £22m surplus value.

As far as investment is concerned short term funding by syndicated or consortium groups is now not seen as more than a temporary answer. In the long term market there are few funds which have more than £30m to commit to a single property, according to Mr Sanderson. Over the past two years, several of the big pension funds which have traditionally backed these large developments have started to sell property—partly because of redundancies in the industries they cover which has reduced their cash flow.

Mr Sanderson also forecasts more space being taken by owner occupiers. Financial packages from banks, and shared ownership would be more common. This would involve a further rise in investment yields and the evolution of a "wide market" so joint or multi-ownership can become accepted. It suggests utilisation, which seems to be becoming an increasingly prevalent theme in the investment market.

Hedge Mr Rodney Petty, of Weatherall Green & Smith, inserts a note of caution. It is still not clear how last month's rise in bank base rates is going to affect the market. The sharp corrections in equity share prices should be a reminder that market traders can have a bad time. Whether it will affect property commitments or the high level of City pre-lets predicted for 1985 remains to be seen.

It might also remind investing institutions of the qualities of property as a hedge and encourage plans for funding on a single, joint, or multi-owner basis. It may be instructive a year from now to look back at the views of Mr Simon Harris, of specialist City agents Baker Harris Saunders, perhaps the

most outspoken supporter of big buildings and periphery locations. "Demand is coming from tenants who require whole buildings which provide all the space which can house new technology," he says. "Tenants also do not mind sharing buildings if the architecture is significant."

Demand is severely outweighing availability of the best buildings. There are a large number of inquiries from banks and professional firms prepared to lease buildings or parts of buildings, but the right space cannot be found.

"Architectural identity is outweighing availability of the best buildings. There are a large number of inquiries from banks and professional firms prepared to lease buildings or parts of buildings, but the right space cannot be found."

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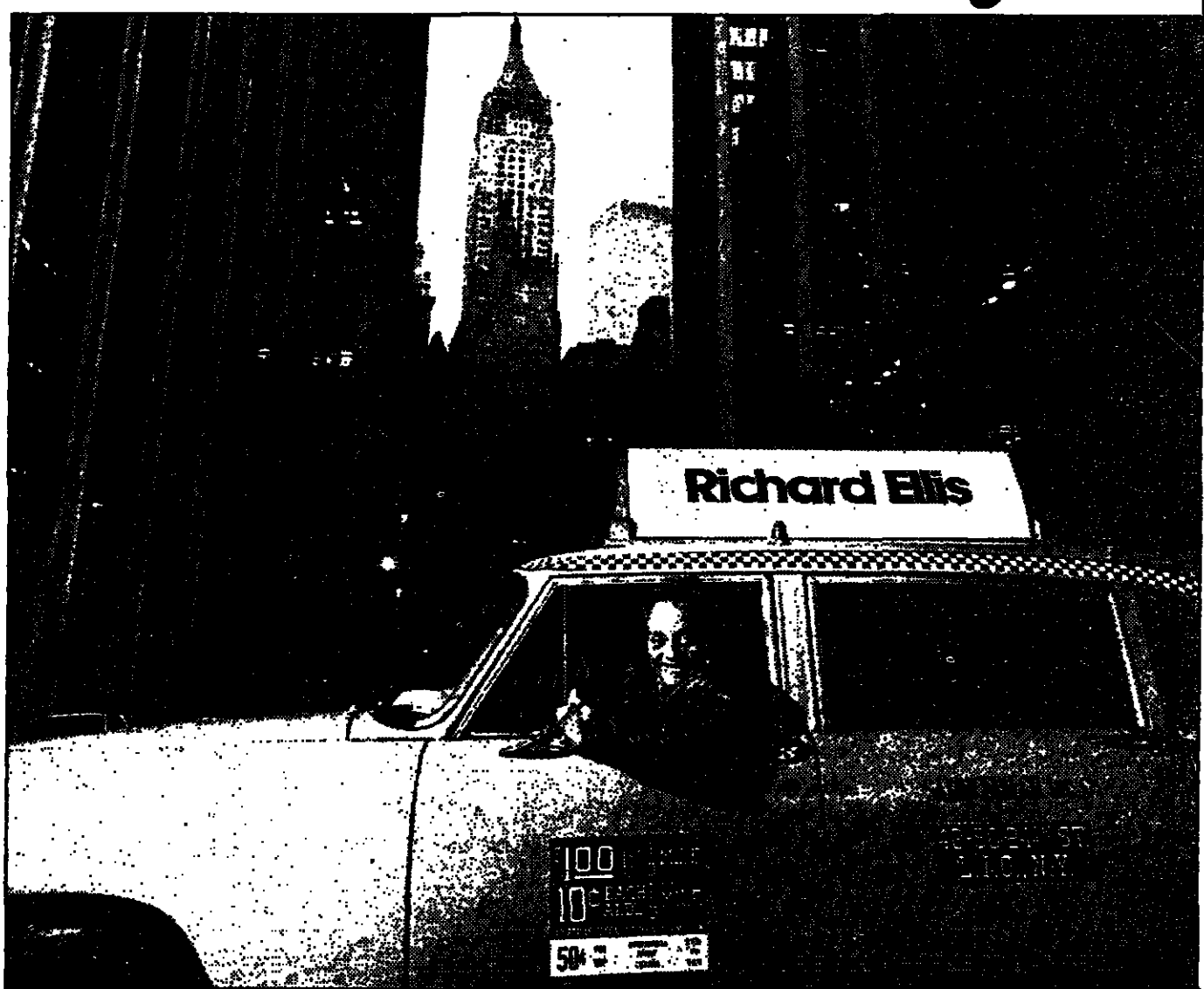
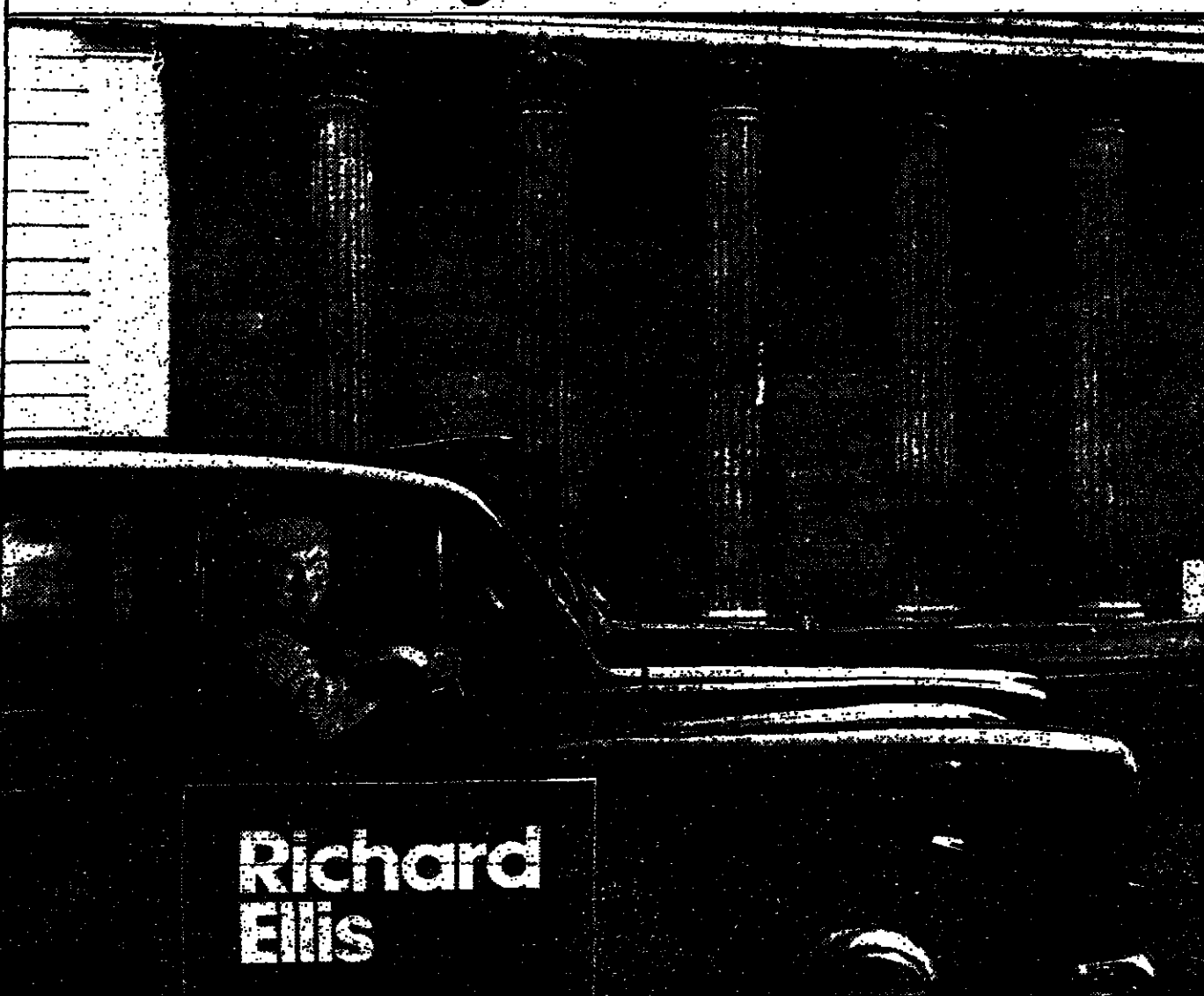
The question this year is whether we will be counting pre-lets or letting boards. And, if so, where?



Demand for large buildings is expanding the traditional financial area on to the Thames north bank around London Bridge. Ebbgate House (left) has gone to Barclays/de Zoete/Wedd, 33 King William Street (centre rear) to S. G. Warburg, and the unfinished Billingsgate (right) to Samuel Montagu. Montagu is having second thoughts, but another financial tenant is likely.

# Richard Ellis.

## A City institution. But which city?



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## City of London Property 2

The ability of central locations to meet new tenant demands is uncertain. Michael Cassell reports

## Heart set to beat at slower rate

### The Core

THE PRIME City of London office market has entered 1985 in confident mood, though there are few property pundits brave enough to suggest that it will be a vintage year.

In the words of one agent: "It looks as though we are in for a solid, safe and unexciting time."

After an uncertain and unpredictable 1984, when an early improvement in interest and letting was stifled by problems in the international banking sector, the revival towards the end of the year has carried through into 1985.

The reorganisation of financial services within the City, notably the proposed merger of several large broking houses with banking groups, has started to make itself felt on the office market, with demand for high-quality, flexible and efficient accommodation on the increase.

The big question overhauling the market is how well the traditional office core will be able to respond to the fresh wave of demand. If an increasingly significant proportion of floorspace fails to come up to standard while planning restrictions prevent the creation of suitable accommodation, the outlook for the prime central market must look less certain than for some years.

No-one is suggesting that prime locations face a crisis, but some believe the medium-term prospects are hardly rosy. According to Mr Nick Baucher, of Baker Harris Saunders: "The inner office core will continue to let but not at the same rate as the fringes. We do not expect prime City rents to move far this year. All the action will be on the outer edges of the market."

Mr Baucher says the scenario depends largely on the pace and success of the financial services revolution. But as long as its principal activists are in an expansionist mood, their effect

on the shape of the City office market will be profound. "In spite of the strength of demand, significant numbers of older buildings in the heart of the City which are not being brought up to date will be hard to let. There will be resistance from the larger users, although smaller tenants will not tend to mind so much. "In sub-standard properties, rents will fall although landlords will not let you see it. Their buildings will simply have more empty space."

The fresh wave of refurbishment in the heart of the City stands as evidence that the message has got across, although there is plenty of proof that refurbishment in itself might not be enough. In locations like Cornhill, modernised buildings have remained vacant because inherent shortcomings have not been overcome, either through a failure to understand market requirements or a lack of flexibility by planners.

### Difficulties

If the right accommodation can be provided in the inner core, there is unlikely to be any shortage of takers. Mr William Woodward-Fisher, of Chestertons, believes demand for central space of the highest quality must continue to increase.

"What will not be so acceptable are the secondary refurbishments or buildings behind period facades," he says. "I see conflict developing between the planners and the developers in this area."

Mr Julian Ryder Richardson, of architects GJM Partnership, emphasises increasing difficulties in redeveloping the City's historic centre. His practice designed Centurion House in Monument Street, which had to be built in stepped terraces to preserve the view of the Monument from the Thames. There were repeated attempts to get plans approved.

"The process can be lengthy and expensive but at least the level of City rents gives room for manoeuvre," he says. In

any case, landlords no longer have much choice if they want their buildings to let. The changing pattern is being reflected in institutional attitudes towards investment in City property. Over the last year, polarisation between high-quality buildings and older or refurbished ones has encouraged funds to become more quality conscious and to discount even well-located buildings that are not up to standard.

There is likely to be a further increase in the number of projects funded from non-institutional sources, particularly larger schemes where their speculative nature in terms of location and tenancy is not acceptable to the funds. The recent wave of freehold acquisitions by occupiers seems likely to continue.

As for the central market's current state of health, buoyant demand is failing to have any material impact on rents because of the continuing high supply of accommodation.

According to Debenham Tewson & Chippings: "In spite of a drop of 500,000 sq ft during 1984, the City still has an adequate range of accommodation available. Variations exist between districts, and in EC2 the year-end total was 21 per cent higher than a year earlier."

In EC3 and EC4, however, there was a decline. Even so, there remains a large range of office space available, even in the financial core."

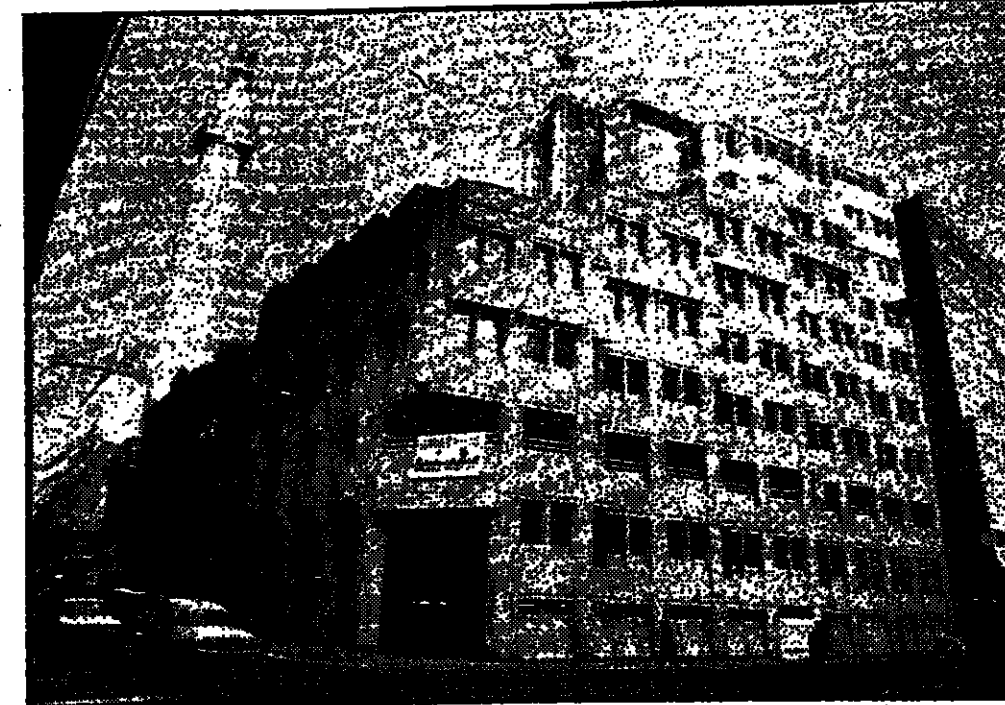
With prime rents in the heart of the City reaching a plateau in 1984, some growth is likely over the next year. Top deals are likely to be in the £30 to £35 a sq ft bracket, although rents in new schemes could reach £35 a sq ft.

In an overall review of the City market, Richard Ellis estimates that take-up in the EC postal districts during 1984 reached 3.3m sq ft, the highest annual figure recorded in the 16 years it has been compiling the figures. For the first time since 1980, take-up exceeded new supply, which was 3.1m sq ft, thereby reducing availability

of speculative office space come on to the City market compared with 1.3m sq ft last year. Together with second-hand accommodation, total supply is thought likely to reach about 3m sq ft, a repeat of last year's. Ellis believes that take-up will also reach about the same level.

The agency is more bullish than some about rental prospects, suggesting that increases of between 10 per cent and 15 per cent could be on the way this year.

It says "Movements in top City rents could, however, continue to be difficult to ascertain in the absence of open market transactions involving centrally located accommodation of the highest quality. In competitive in top rents could be achievable."



Centurion House had to be built in terraces to preserve the view of the Monument, but the level of City rents gives room for such manoeuvre. Nomura, Japan's biggest securities house, has chosen the block to cope with its increasing City role.

from just under 4m sq ft at the start of last year to 3.4 in December.

Ellis emphasises that the level of space on the market remains relatively high, however, providing a continuing choice for most prospective tenants. Rents have not yet started to accelerate.

The agency estimates that 1985 will see another 1.7m sq ft of speculative office space come on to the City market compared with 1.3m sq ft last year. Together with second-hand accommodation, total supply is thought likely to reach about 3m sq ft, a repeat of last year's. Ellis believes that take-up will also reach about the same level.

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In essence, the plan confirms the City's role as the nation's primary office development is harming other aspects of life. Economic diversity is vital for the City's good health, and offices must not be allowed to stifle other forms of business activity and employment, it says.

The plan questions whether demand for office space will reflect past trends but accepts that continuing development will be necessary. It envisages that demand will increase pressures on areas outside the central core but says the overspill must not be allowed to destroy the economic make-up of the peripheral areas. The City appears to be dissuading development in these areas where the next generation of office buildings could be expected to emerge.

At the same time, the plan places heavy emphasis on preserving the City's feelings towards the prospect of a tougher planning regime must be made. Restrictions might make life tougher for developers but they tend to work wonders for property assets which are created by restricting supply and forcing up rents.

Nether would many expect development in a location as sensitive as the City to be entirely trouble-free. The feeling is, however, that this time the City planners have gone over the top.

Richard Ellis singles out conservation areas for criticism, claiming it would provide the corporation with considerably extended powers. "As a precondition of applying for planning consent to alter or demolish or reconstruct, it will be necessary for those concerned to obtain listed building consent, despite the fact that their buildings may not be of any great architectural or historical interest," the agency says.

Obtaining such consent depends on a number of aesthetic considerations which, being mainly subjective, give little opportunity for logical argument or reference to precedent, and against which there is no appeal."

Ellis believes that extensive designation of conservation areas states on a main part of the office core will prove entirely negative. It would slow or impede any alteration or development and, in reducing the number of permitted locations, drive away important occupiers.

"The Corporation is laying a dead hand upon that part of the City subject to the highest natural demand for change," Ellis has called for a "special policy area" encircling the bank conservation area, within which high-density development would be permitted.

Chris Peacock, of Jones Lang Wootton, says the corporation will have to show the flexibility to which it refers in the plan. "If international companies cannot, because of restrictions on new development, and what they want in the City, then London will lose out," he says.

"We cannot abuse our geographical privileges and encourage businesses to locate here come what may. If we are not careful, we will have a decaying core in the middle of our empire."

Mr Julian Ryder Richardson, a senior partner at architects GJM Partnership, has been involved in many of the City's big redevelopment projects like King William Street House, the Barings buildings in Bishopsgate and Centurion House in Monument Street. He accepts that there is a continuing need for development controls, although he believes the planning pendulum may have swung too far towards conservation.

"The draft plan is on the right lines even if the City's concern at preserving the best of what is left has tempted it to over-react," he says. "If we are going to preserve and conserve then we are going to make life more difficult for the developers."

"But we need to look carefully at what is left. If we decide to pull things down, we must ensure we provide something better. Although there are a few really bad buildings being built in the City, neither are there many good ones."

"The main problem involves the time to get plans passed. Some architects are less charitable. Mr Francis Duffy, of Duffy Eley Giffone Worthington, says the draft plan demonstrates "little understanding of the economy of the City or the space requirements of occupiers. It incorporates 'an unfounded concern with preserving activities that need not be in the City,'" he says.

"There is more in the plan about the quality of the environment than there is about the City's economy. There are fine buildings and vistas and that historic views should be preserved; it is equally true that much, if not most, of the post-war redevelopment has been at best undistinguished and too often ugly."

But the draft plan has at least created the public debate which has been rare in the past, and which could help ensure that the next phase of the City's development does reflect a balanced approach to conflicting demands.

## Conservation paradox takes a pounding

### Planning

AS CITY architect and planning officer, Mr Stuart Murphy must be used to the development industry taking the occasional side swipe at him but since the publication of the City draft local plan he must be wondering what hit him.

In spite of the low-key launch of the plan and Mr Murphy's assertion that the document contained nothing sensational, the howls of protest are, three months later, still ringing in his ears.

The draft plan is designed to shape development in the Square Mile until the end of the century. The team at Guildhall say they have produced a formula which fairly balances commercial needs against historical heritage.

In essence, the plan confirms the City's role as the nation's primary office development is harming other aspects of life. Economic diversity is vital for the City's good health, and offices must not be allowed to stifle other forms of business activity and employment, it says.

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On this page and the following, Michael Cassell examines the strength of the outer areas

## Popularity narrows rent gap

### Costs

THE RISING popularity of the City's peripheral office locations has quickly made them increasingly expensive. Mr Chris Peacock at Jones Lang Wootton reckons that the rent differential between good quality space in the fringes and prime, centrally-located accommodation has, in the last 18 months, narrowed from as much as 50 per cent to around 30 per cent.

The search for suitable space by large occupiers has brought them to fringe markets where rental levels have generally been sticking at £14-£15 a sq ft against more than £30 a sq ft for space in the inner core," he says. "Now the gap is closing."

Mr Chris Tollast of St Quintin says the growth in rents took certain to continue. "Prime rents in the eastern fringes, from Barbican to Hoxton, have hit £20 a sq ft—between 25 and 30 per cent more than two years ago," he says.

"Around the Minories and Leman Street, they have doubled in five years to between £15 and £16 a sq ft."

Rents in areas fast losing their fringe image, such as Finsbury Square, are about £20 a sq ft and rents for latest lettings at Finsbury Avenue are set to rise by about 10 per cent over that level.

On the other side of the City, the fringe markets around Fleet Street and Holborn have not performed well in terms of rental growth, but there have been some disappointing deals. Trafalgar House, for example, finally let Finsbury Court, a fine building in an arguably nondescript location, for about £17.25 a sq ft. The sale of the investment also left something to be desired.

### Reviews

More recently, City of London Real Property let its Old Bailey office scheme to Deloitte for about £17 a sq ft, implying that the Ludgate Hill area—or certainly the buildings recently offered there—has failed to benefit from the growing strength of the fringes.

Rents are not the only factor to be considered. Rates are subject to review annually compared with five-yearly rent reviews and big role in deciding where to locate.

The impact of rates can be seen across the river at Hays Wharf, where St Martins wants to kick off at London Bridge City with rents of £14.5 a sq ft. With rates hovering around the same level, however, the total re-letting package will be more than £30 a sq ft.

On the same basis, combined costs in some fringes will work through at less than £30 a sq ft, while in locations like Finsbury Circus the figure will be nearer £35. On the outer edges of the City core, they might be up to £40 a sq ft, and in the prime-market total costs can run to more than £45.

While fringe locations can rating levels, the new generation of buildings being developed can provide vital savings in operational costs. A new report from Jones Lang Wootton suggests that service charges as an element of total occupation costs are likely to become an increasingly significant factor in establishing rental levels.

To the extent that service charges are seen as inordinately high, there may be market pressure to trade off service costs against rents, resulting in lower rental values. At the extreme, high service charges may even have a critical impact on a building's letting prospects," JLV says.

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The report, which covers the whole country rather than just the City, shows that in the four years until 1983, service charges in a sample of properties rose by 75 per cent, exceeding the inflation rate by 25 per cent.

Increases of that order mean the containment of property service charges takes on an added urgency. It is clear that the latest generation of office buildings offer the best chances of success.

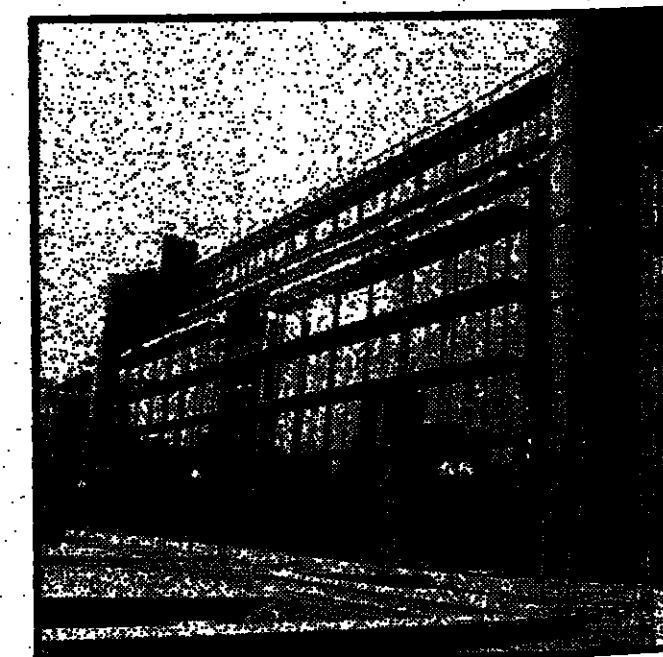
For example, service charges at Greycoat-Rosehaugh's Finsbury Avenue development are put at about £2.80 a sq ft, which, with insurance, still works out at less than £3 a sq ft—which sets a standard for other developers to match. It also throws a harsh light on the cost of operating by old and not-so-old properties competing in the same market.

In the Commercial Union building, for example, service work out as high as £3 a square foot, or £9. Bishopsgate, they're more than £8; and at Angel Court they exceed £7.

The latest, larger buildings can provide economies of scale but it is in the area of energy consumption that some of the most significant savings can be made. The quality of construction materials can also have a big impact on ease of maintenance and running costs. Even when buildings are rebuilt internally, the cost of maintaining the outside fabric can overshadow savings elsewhere.

The latest generation of properties can also offer a flexibility which is not only convenient but highly cost-effective. On average, tenants may shift staff every 18 months and the continuing "musical chairs" can be very expensive.

If, as looks likely, the commercial property market is going to be more fluid than ever before, attention to this type of detail will be essential.



Service charges at Greycoat-Rosehaugh's Finsbury Avenue development are put at about £2.80 a sq foot, setting a standard for others, while rents have exceeded £20 a sq ft.

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## City of London Property 3

## Revival pushes out boundaries

## The Fringes

THE increasing acceptability and strength of the so-called fringe office locations grouped around the outer edges of the Square Mile represents the most significant phenomenon influencing the City of London property market.

After years of raised expectations and repeated false starts, a combination of factors has started to push back the boundaries of a property market which, in spite of intense demand pressures, has resolutely refused to spread far beyond its traditional location.

The market revival, after a fairly prolonged and flat period in the City, shows that changing attitudes, and requirements by occupiers, developers and funders—plus increasingly restrictive planning—have led to fundamental differences in emphasis.

Areas once regarded as fringe may now be accepted as part of the city core—albeit the peripheral part. In turn, some fringe locations look increasingly like being upgraded in value to become part of the prime inner office market.

How much longer, for example, will locations like Billingsgate, Finsbury Square and Liverpool Street be regarded in a different light to those in the City's traditional heart? How much longer before the trend sweeps south across the river to embrace locations previously viewed from the City as a commercial no-man's land rather than as a potentially attractive, alternative business location.

## Scarcity

Redefinition has been brought about by a number of market forces. In the first place, the continuing revolution in the provision of financial services has created a fresh wave of demand for office accommodation. Occupiers are increasingly demanding a high-quality working environment and large floor areas in buildings which can not only accommodate the latest office technology, but which have an inbuilt flexibility to cope with what is yet to come.

The scarcity of this type of accommodation in the City core—and the prospect that availability is unlikely to improve—means that attention has shifted to areas where the product can be provided.

Agents Richard Ellis say an outstanding feature of the 1984 City property market was demand not only for new, rather than second-hand, floorspace but for very large units. A dozen buildings in excess of 50,000 sq ft, all in new or modern air-conditioned space, were let in the EC postal districts, and almost all were outside the City core.

The majority went to the financial services sector. The trend towards the fringes was in the past often firmly resisted, but there now appears to be a general willingness by occupiers to go further. Their new enthusiasm is partially based on the realisation that big cost savings are possible and that the comprehensive development of some un-



The £28m development of Triton Court on Finsbury Square is a classic example of a City fringe building reconstructed to modern standards

desirable locations has made them acceptable as business addresses.

Repeated transactions in the last year have proved that occupiers will reconsider long-standing attitudes to location, provided the quality of accommodation is good.

Mr Chris Peacock, at agents Jones Lang Wootton, says: "Everything has changed because of the growing realisation that many buildings in the heart of the City are no longer suitable for the new generation of financial firms and that a prime location is no longer so vital. No one can now afford to believe that location alone will let a building."

The common view is that a City fringe "renaissance" is underway. Mr Chris Tolland, of St Quintin, says demand for large chunks of quality office space is insatiable and demand will continue to spur big developments in the eastern and northern City fringes.

"Insurance companies are migrating northwards and professional services are relocating in ever-increasing numbers to Canary Wharf and Fleet Street," he says.

The eastern City fringe, provides the most obvious example of the new momentum. The area has seen more development than any other around the City's edge. According to Mr Richard Main of the agents which bears his name, "Virtually one-third of the City centre is now a conservation area. If occupiers cannot get what they want there and it cannot be created, then they will have to go where it is available."

"The eastern fringe is already an established adjunct to the City market, but the potential for further development and rising values is enormous."

Main calculates that more than 250,000 sq ft of office space a year has been taken up each year in the eastern fringe during the last seven years. He believes that a continuation of the trend will lead to shortages.

"When a traditional City occupier like the London Commodities Exchange decides in favour of a location like St Katharine's Dock, it changes everything," he says. At a stroke, the City property market has to be redefined.

"Some fringe locations will never make it, in spite of pressures on the centre, because of factors like com-

munications and rates. But Tower Hamlets has the best rates record of any fringe borough. Areas like those around Tower Hill will be big growth centres."

The change of heart among occupiers has been rapid. Their readiness to take the right space in what was once the wrong place has brought quick success to a generation of office schemes. These were originally seen in some circles as high risk but which have proved to be spot-on in specification and timing.

Mr Peacock says: "It is becoming increasingly difficult to define exactly what constitutes peripheral space. Given the plans for Liverpool Street, can we continue to regard that location as anything other than an integral part of the central City market? And who would have rated Billingsgate until the London & Edinburgh scheme, managed to achieve £27 a sq ft?"

The central area will, from now on, provide very few opportunities for development on the scale and of the type which many tenants will require. It is to the peripheral areas that developers and occupiers will now have to look.

## Market

Whether the fringes will be able to fulfil the demands of the market is not a foregone conclusion, especially bearing in mind the planning obstacles. In the short term, the supply of suitable accommodation looks limited.

The number of 100,000 sq ft plus office schemes available on the market—all on the fringes—can be counted on one hand. There is:

● Bury Court House (107,000 sq ft), the Haslemere scheme which, after an abortive part letting, is still vacant.

● Triton Court (200,000 sq ft), the Royal London Mutual Insurance complex at Finsbury Square, where several big inquiries are being pursued.

● 50 Ludgate Hill (119,000 sq ft), the City of London Real Property scheme. An adjoining 63,500 sq ft in Old Bailey has just been let to Deloitte Haskins and Sells.

● Nearing completion is 1 Prescott Street (125,000 sq ft), the former Co-operative Wholesale Society headquarters, on the eastern fringe in an area where names like J. H. Minet,

Hogg, Robinson and Sedgwick Forbes have settled.

● Angel Centre (176,000 sq ft), the London and Merchant Securities building at Islington is still looking for a tenant prepared to locate on the outer edges of the fringe market.

Looking further ahead, and after a gap which could put considerable pressure on rents, there are several big schemes in the pipeline. Few doubt their quality, or their ability to match occupiers' requirements, and any reservations about their location are likely to be quickly overcome, if only because there will be few alternatives.

The projects include the redevelopment of Liverpool Street and Broad Street stations by Mr Stuart Tipton's Stanhope Securities, which will ultimately provide about 1m sq ft of net office space. The first accommodation should be ready at the end of next year.

There is also the London & Metropolitan project on the site of the former BP complex in Ropemaker Street, where demolition work is under way and which will provide 750,000 sq ft of space. It is due for completion in the summer of 1987.

Norwich Union is also funding major office schemes at Fenchurch Street Station due for completion at the end of 1986, and an 86,000 sq ft project at Finsbury Circus.

## Prospects

Still waiting in the wings is the office scheme proposal close to St Paul's by Wimpey Property, in conjunction with St Bart's Hospital. Over the river, Chesterfield Properties' 130,000 sq ft scheme in Southwark, New City Court, should be completed in early 1988.

Perhaps most interest surrounds prospects for the office space being created on the south bank of the Thames, which, by virtue of the river's intervention, remains the biggest fringe market.

Second only in size to St Martin's, London Bridge City is the redevelopment of Sea Containers House, built as a hotel but never used for that purpose. The challenging conversion is well underway and, when completed by Easter 1988, will provide 272,000 sq ft of space. About 68,000 sq ft has been pre-let.

But it is London Bridge City on which most eyes are focused. The ambitious £350m development will provide up to 2m sq ft of top quality space on the water's edge. If the project was on the north bank its success would be a foregone conclusion, but its creation is still widely seen as a gamble which few would dare, or care, to make.

St Martin's, however, seem encouraged by the interest being shown by prospective tenants. With the first space due to become available in little more than a year, there is evidence that occupiers are prepared to locate south of the river if the accommodation is right. London Bridge City would appear to be offering a quality of environment unmatched north of the river.

If St Martin's bold decision is vindicated, then the transformation of attitudes among occupiers can be said to be complete: the boundaries of the City office market can finally be redrawn.

M.C.

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## City of London Property 4

William Cochrane looks at the impact of changing demands from tenants, new technology and energy services

# Gambling on a new address

## Occupiers

LOTS OF gambles are being taken in the City of London today. The big one is the securities industry revolution, which could lead to 30 maxi-financial corporations competing for business by the end of 1986.

Overcapacity could lead to reduction, or even temporary elimination, of profit margins. Meantime, the punters—typically banks with 29.9 per cent holdings in stockbrokers and jobbers—are being urged to put their alliances into fringe city buildings mainly under construction or in the planning stage.

Mr Gordon Pepper, Greenwell's joint senior partner, said last year that the abolition of commission scales and the entry of substantial new outside competition into UK gilt business will increase the number of primary dealers to between 20 and 25—which will come down to 10 or 12 over three years.

The agglomerates considering moving into new property are facing fitting out costs of £50 to £60 a sq ft—£10m to £12m for a 200,000 sq ft building—at the time when margins are coming under pressure. A bear market in equities, though currently in a dramatic world-wide bull phase according to brokers Quilter Goodson, would make a very messy coincidence.

Samuel Montagu, the merchant bank owned by Aetna Life and the Midland Bank, itself linked to leading gilt-edged



Andreas Prindl, a managing director of Nomura International, advises caution on the prospect of maxi-buildings for maxi-corporations

stockbrokers W. Greenwell, was scheduled for a move to London & Edinburgh.

Barclays has agreed to pay £3m a year for Ebbgate House, the 129,000 sq ft office building overlooking the Thames. Barclays Merchant Bank will be joined by Wedd Durlacher Montagu, the jobbers, and brokers de Zoete & Bevan in a new international securities company.

The building was developed by Daybridge Investment, a subsidiary of Edger Investments, part of the Prudential.

Daniel Smith were letting agents and Hesley & Baker acted for Barclays.

Traditionally long on brains and tight on capital base, it is no wonder that merchant bankers are becoming cautious about the property aspects of all these variables. The apparently straightforward move of the Barclays de Zoete Wedd combination to Ebbgate House on Upper Thames Street might owe something to having a clearing bank as ultimate parent—and one which is not up to its neck in South American debt.

in August 1983. It is constantly looking at the property market, but says it would not be sensible to assume that it is on the move again.

Last year's move cost a lot of money and nobody knows what the securities markets will be like in a couple of years.

Warburg does seem committed, however, to big open-plan floors and a City address. It investigated moving staff from the back-office to an out-of-town location and was disappointed by the results.

It has more than 900 people in King William Street. Bringing in the other three firms would raise its UK base to 1,800. But the growth in numbers masks the fact that back-office staff take the least space, and their numbers have been held in check by use of computers.

There is more to City occupancy than the marriage market, however. Nomura, Japan's biggest securities house, with a \$5bn capitalisation, has seen its European headquarters staff rise to 240 from 90 people in 1981. It will need even more with the growth in underwriting, bond trading and market-making.

Dr Andreas Prindl, a managing director of Nomura International London and Nomura NV Amsterdam, says the European market, where his company is the biggest player, has opened up. The ethnic balance of its UK staff has switched from 90 per cent British to 45 per cent Westerners, and 45 Japanese. Most are "up front" and the company wants to be in the City where it can attract extra staff.

Presently in an undistinguished 30,000 sq ft at 3 Gracechurch Street, the company is due to move in May to Centurion House, at Monument Street and Pudding Lane, where it will have 54,000 sq ft split into about 7,000 to 8,000 sq ft a floor.

Dr Prindl advises caution over the prospect of maxi-buildings for maxi-corporations. "Most already have their buildings," he says.

He expects that a few will choose blocks with giant dealing floors. "But if you're 200 ft away from somebody on the same floor, you're not exactly integrating, are you?"

## Committed

S. G. Warburg, in a formidable link-up with Mullens Akroyd & Smithers and Rowe & Pitman, is keeping its property options wide open. It had just moved to Land Securities' 128,000 sq ft King William Street House in August when brokers Scrimgeour Kemp-Gee estimated that the proposed grouping would need at least 250,000 sq ft if the constituents came together in physical terms. Warburg was committed to the King William Street move long before the revolution, starting to fit out the building

# Coal wins heated debate

## Energy

QUANTITY surveys keep their eyes on costs. However, Mr Peter Sanders, of Gardner & Theobald, gives full credit to consulting engineers, Ove Arup & Partners, for the energy aspects of the refurbishment/redevelopment of Triton Court in Finsbury Square.

More than £23m was spent

rebuilding and renovating the former headquarters of the Royal London Mutual Insurance Society, which moved to Colchester. All in the space of two years, Richard Ellis managed the development, with Sheppard, Robson as architects, and Trollope & Colls as main contractor.

At the design stage a study was prepared by the consulting engineers to determine the long-term strategy for heating the building. Consideration was given to natural gas, oil, coal, off-peak and ordinary-charged electricity.

The engineers concluded that: ● Oil could be ruled out, on the basis of running costs and the uncertain long-term availability of fine distillate oils; ● On-peak electricity could be ruled out on running costs; ● Gas was not available in excess of 25,000 therms per annum: the building required approximately 10 times that amount; ● Off-peak electricity, using a high-voltage night tariff, com-

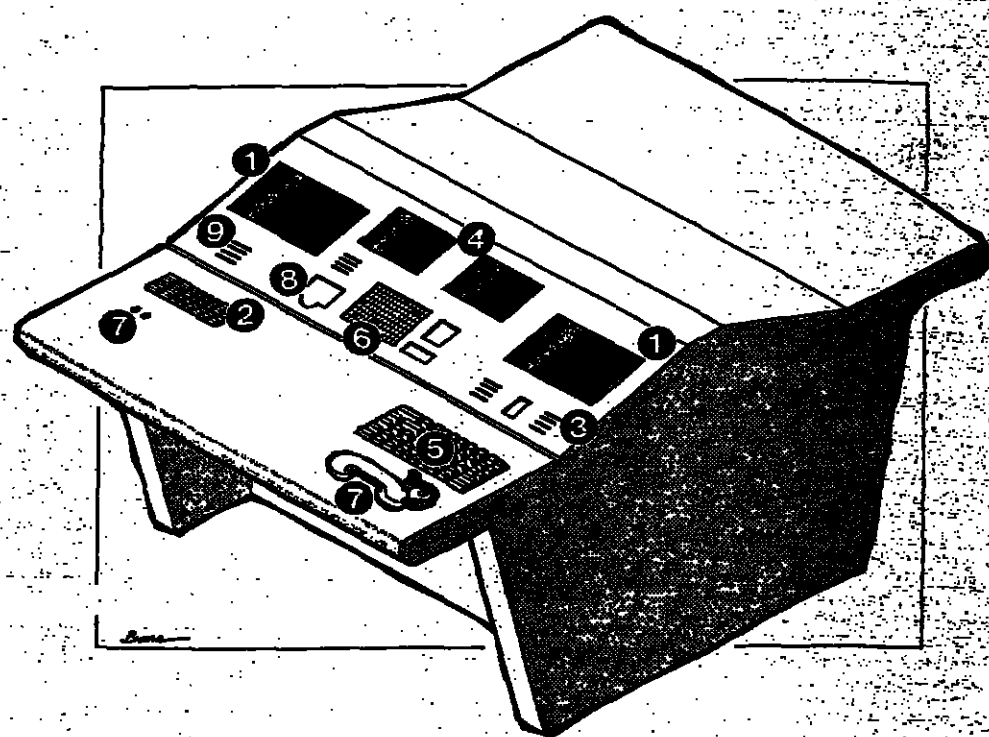
pared favourably with gas in running costs, but had the highest capital cost in thermal storage vessels. Electricity had the advantage of not needing chimneys, but was the least desirable of fuels for the user, requiring considerable plant modification for a change of fuel. Changes could be made more easily at the generating plant, and for this reason the supply of electricity should remain stable.

● Coal had the lowest running cost but a higher capital cost than gas or oil. It had the lowest cost in use—about half that of off-peak electric heating. Modern coal-fired boilers burn coal cleanly and smokelessly, and even ash removal could be semi-automatic.

The engineers' conclusion was that a coal-fired installation should be adopted. They said Britain had large coal reserves, and its long-term supply could be assured.

Present considerations apart, Mr Sanders says, the boilers can be converted to gas or oil if that becomes necessary.

## Blueprint for a building



One of the 56 corporate dealing desks designed for Midland Bank group treasury, which could quadruple business with the same number of people behind them. Each comprises: ● Foreign exchange display screens (1), keyboard (2) and speakers (3); Monitor screens (4) and keyboards (5); dealer keyboard (6) and speaker (9); telephone sockets (7) and intercom (8).

# Bankable new technology

## Interiors

POLITICIANS and other prophets have produced visions in recent years of massive voids in ghostly city offices centres, as information technology takes work away from the human animal and stuffs it into some decentralised computer. Or it takes the human animal away and plants him in front of a visual display unit at home.

Curiously, this does not seem to be happening. Computers are cutting, or certainly limiting, the increase in back-office staff in the City of London. But employers have been emphasising that their front men need to work together. That benefit from contact with competing or complementary teams, either in the markets or in eating houses, they claim.

Academic seem to have been a lot more practical about it. In February 1983 a research report by the Centre for Advanced Land Use Studies (Calus) at the College of Estate Management Reading said IT was having a much more significant impact on the type of office space rather than the amount required.

Calus thought it unlikely that the demand for space would fall over the next five to 10 years. Locations might be more widespread, but while the availability of IT was necessary for decentralisation of offices, it was not a reason for this.

**Opportunity** Meanwhile, IT has combined with the burgeoning revolution in the securities industry to put City dealing rooms into the limelight. A banking executive charged with filling the property requirements of one of the big new combinations talked about a sort of financial La Ronda on one big floor—"banking people can tango with Euro money, that contiguous with currency swap, that with bond traders, bond placers and so on, round and round..."

Builder Trollope & Colls sees this as an area of distinct opportunity. T & C City has been involved in a number of dealing room projects. The London International Financial Futures Exchange being the prime example. T & C Management towards the end of last year was completing a dealing room for Union Discount at 39 Cornhill.

So last October T & C formed Trocoll Communications as the vehicle to take a complex, high technology project such as a dealing room from conception through to completion.

Its package deal would involve identifying the equipment available, liaising with suppliers, designing a technical, aesthetic and economic design solution, designing specialist dealing desks and interior furnishings and carrying out the installation.

Mr Alan Rummicks, a director of T & C Management, said: "A dealing desk takes 1,500 wires. Individual work stations need less but, increasingly, architectural design does not take into account all the factors which make a dealing desk work."

T & C, a subsidiary of Trafalgar House, admitted informally that work for T & C itself—the corollary being that Trocoll would not insist on being project manager for every job with which it was associated.

"We will work just as happily under an architect, or directly from the client bringing in an architect of our own choice," Mr Rummicks said.

At Lawrence Pountney Hill, of Cannon Street, the APCI (FMI) design and project management teams have been in the Suffolk House offices of the Midland Bank group treasury for 2½ years. First they fitted out the corporate dealing room, completed last December; the second and third phases involve a computer suite and a trading room, due for completion in March and December 1985 respectively.

APC was faced with the restraints of out-date building services systems, and the restrictive geometry of building shapes and heights. For the corporate dealing room, it had to get 56 desks incorporating the latest rapid communications systems and revolutionary concepts in design into less than 5,000 sq ft.

The client's brief was to provide a dealing desk where the screens and monitors were concealed behind a transparent perspex top positioned at a shallow angle. This provided dealers with an unrestricted view of their office and colleagues.

The design team used uplighting to avoid the glare which often affects VDU operators.

Heat from monitors in the desks is extracted through the floor, air conditioning comes from a ventilated ceiling. A new plant room was needed to augment existing air conditioning, which would not be capable of handling the heat generated by the communications equipment.

The contrast between recent and present dealing room technology is impressive. Midland has an interbank room on the same floor which is about four years old. It has, right, modern, modular work stations with what looks like eight pieces of equipment—monitor, VDU, on the desk and a box of clutter.

In the corporate dealing room everything is below desk top level. Mr Sylvaine Reinhold of APCI says: "Fewer screens take up space, and are capable of taking even more again."

"The whole room, including the technology inside the desk, was designed and developed in four months," he says.

The decor is black and grey, impressive and subdued, but rich.

Mr Peter Gallant, in charge of marketing, sales and distribution for the Midland Bank group treasury, says: "The dealing room is probably the most dynamic, interesting, high profile bit of a bank."

"It's like the assembly line where British Leyland puts cars together. It's the bank, holy and interesting. It has to be functional, a communications centre, and a showpiece for visitors."

"A lot of people in our business are prepared to spend time designing facilities with unique qualities. If I bring a customer here I want him to remember this one."

Midland wants its dealers to manage the technology rather than vice versa. "So the technology is lost in the furniture—not the traditional way of building a dealing room," Mr Gallant says. "The traditional would have technology heaping up on top of a table."

"What's more important, the man or the machine?" he asks. He provides his own answer. "Until we have artificial intelligence, I assume that it is going to be the man."

The project costs about £30,000 per work station. This sounds a lot, but Mr Gallant says: "We are capable of at least quadrupling our business, with the same number of people."

## 日本企業の皆様へ

ナイト・フランク・アンド・ラットリー・グループは最も多岐にわたる不動産業務とそのコンサルティングを世界的規模で行っている英国の老舗です。今、日本語でその専門のアドバイスをサービスが受けられます。

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## City of London Property 5

Jeffrey Brown inspects the health of property companies with City-based portfolios

## Shelter from storms of revolution

### Corporate Sector

THE CITY factor looms large in the boardrooms of UK property companies. Company directors with assets in the City breathe with comparative ease: those who have no City connections look on with undisguised envy as asset values and rents continue to outperform the property sector averages.

Agents Richard Ellis say office rents in the UK rose by an average of 8.4 per cent per annum in the six years to March 1984. In the City, average rents over the period improved by 9.8 per cent, with top quality offices lifting rents by 11.4 per cent—a return that outperforms the national average by more than a third.

Rental strength is only part of the City story: growth of asset values in the Square Mile has also been well above the sector average. This has helped set new standards of portfolio management, shown the way to improve returns on capital and, set the seal on hopes for revival of investment appeal.

Having suffered sharp swings in business climate, property companies are going through a period of radical adjustment. Some would say revolution. The inflationary spiral which did so much to keep the sector bubbling in earlier years has been checked. Recession has added the burden of the problems of accommodation overcapacity.

In the City these blows, damaging to company confidence as well as cash-flows, have been partly cushioned. In 1984, certain segments of the property market showed signs of getting to grips with the depressed business environment. This was especially true of companies with a big City element in their portfolios.

Companies like Land Securities, Great Portland Estates and Haslemere Estates have roughly a third or more of assets in the City. They have been in the vanguard of the shift in management thinking away from pure development. The emphasis, not notably among City

properties, has been on refurbishment restructuring.

The City office market has also been one of the most mobile. Changes in itself creates opportunities for client management, and coupled with the prospect of a reduction in corporation tax, has underpinned heavier dealing activity by property companies, enhancing the attractions of trading profits.

The developer-trading company is a more established part of the property scene, and there have been plenty of new arrivals over the past year. Many mature development groups, notably the mighty Land Securities, have also begun fairly big dealing programmes to enhance profits and cash-flow.

In general, the outlook for new development remains hazy and even in the City there have been setbacks. Tenant demand in the core and fringes is strong, but only for the best accommodation and for offices that fit the changing demands of financial concerns.

### Monitored

Developers have to avoid creating dated offices. A number of unlet conventional developments have shown signs of being stranded, victims of the tenant swing towards large floor areas. The City's financial services and banking revolution, courtesy of stock market deregulation, looks to have caught a number of property companies napping.

The impact of the shake-up in the financial markets and the prospect of several big international trading houses being created is having a dramatic impact on the lettings market and the kind of accommodation required. City property men see this as a big factor for at least another two years.

The City is the most closely monitored development market, and past predictions of a revival have proved premature. It remains intensely competitive. Agents Richard Saunders say the amount of vacant City office space stood at 5.2 per cent of total accommodation stock last November. The percentage 12 months earlier had 5.4 per cent.

Doubts caused by the build-up in the City fringes have also

begun to reach the surface. However, there is plenty of precedent to suggest that the institutional trend to move from the City's inner core is not going to leave the central business area with weak demand and poor rental growth prospects.

Agents and stockbrokers have made attempts to stem the rolling tide of City euphoria. Here lies the way ahead, they say. It is this style of portfolio management that has to be adopted, to varying degrees, elsewhere in the UK. The City remains a magnet for property investment, but could just be beginning to warm to the idea of an investment revival.

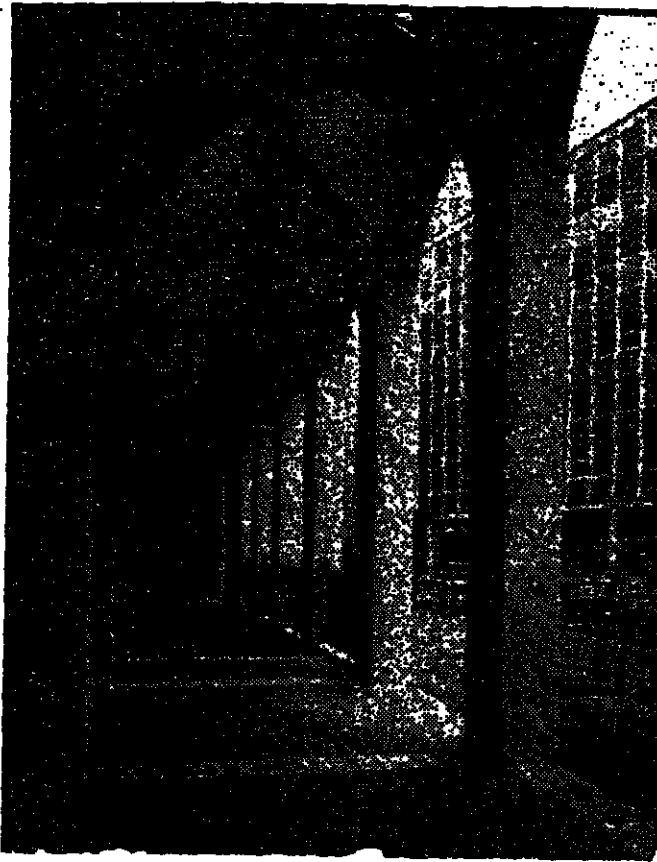
Direct investment by the main institutions is still flat, but property is going through the first pangs of rejuvenation in the stock market. Having underperformed in 1984, property shares are now being seen as a strong defensive hedge. City-based groups head the broker tip sheet, and so do companies with strong and innovative management.

Last year property shares improved by about 18 per cent against 26 per cent for the stock market as a whole as judged by the FT-Actuaries index. The under-performance was even more marked during the final quarter of 1984, extending the depths to which most property share prices discount underlying asset values.

Haslemere Estates has about 40 per cent of its assets in the City with an additional 28 per cent or so in Holborn and the West End. Its investment rating reflects these factors plus its property dealing, development successes and dividend record.

Net rents last year totalled £13.5m with pre-tax profits emerging at £5.5m. Two new City developments have added 165,000 square feet of prime office letting to the portfolio.

Last autumn's takeover of Churchbury Estates has dented Great Portland's Square Mile holding from 65 per cent of its portfolio to about 35 per cent. At one time the group was saddled with unlet City offices, and recent reverses have suffered accordingly. But



Trafalgar House let Plumtree Court, off Shoe Lane, to Coopers & Lybrand for £17.25 a sq ft but achieved only just over £45m in the sale to Norwich Union, showing the relative weakness of the western fringe market.

### LEADING CITY DEVELOPERS

	Stock market value (£)	% of portfolio in City
Land Securities	1,53bn	29
Hammerston	745m	10
Great Portland	223m	31
Haslemere	149m	40
British Land	122m	45
Wates City	110m	100
Greycoat City	108m	35

Source: W. Greenwell

group lettings have been successfully transformed and the Churchbury deal was widely applauded.

Net rents last year were £2.5m with pre-tax profits running to £1.05m.

Entrepreneurial management and a City property holding extending to about 45 per cent of total portfolio are key factors underpinning British Land in the eyes of the investment community. A 200,000 sq ft complex, Plantation House, dominates the asset base, but die-hard fans of the company point to its short leases and frequent rent reviews.

British Land is acquisitive—cash assets last March totalled about £32m—and invariably full of surprises. Net rent last year totalled £13.3m and pre-tax profits were £5.8m.

London & Edinburgh Trust is the largest of the independent property dealing companies, valued in the stock market at more than £40m. It has a string of ambitious deals in hand, notably the £100m redevelopment of Britannia House, and has non-recourse borrowing links with Chase Manhattan Bank. The company's portfolio values are growing rapidly.

### PROFILE

## Fledgling on a narrow base

WATES City of London Properties was formed last autumn when the controlling Wates family launched the company on the stock market. It has a property portfolio valued at about £98m, and is going through a period of rapid expansion in rental income as new lettings come on stream.

All Wates City properties are in the City of London, the bulk in the central core. By most property company standards, this is a narrow base, but Wates City has no plans to move outside these boundaries.

The company had been the development arm of the Wates housing and construction group and family interests retain a major shareholding in Wates City, but the company is now independent. After issue expenses, debt repayment and payments to the Wates family, last September's sale provided Wates City with £25m for expansion.

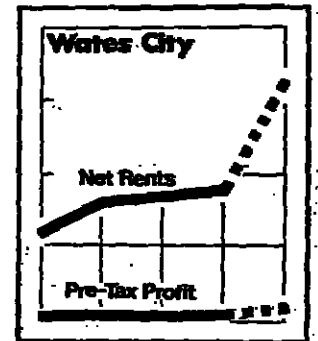
Rental income has risen rapidly in recent years, and continues to increase with new lettings. In 1981 net rents totalled £1.5m; they are forecast to emerge from 1984 at £3.3m, and expected to rise to at least £4.5m during the current financial year.

This rapid increase has been mirrored lower down the profit and loss account with pre-tax profits set to rise to £1.5m for 1984, according to September's prospectus. In 1981, the company's pre-tax profits were £226,000.

The portfolio comprises 10 properties, of which the flagship is the City Tower in Basinghall Street. Wates City has a 58 per cent interest in this property, which is being renovated and let. The City Tower provides more than 138,000 square feet of prime office accommodation. It is valued at £22m, or almost a quarter of the group portfolio.

Wates City's prospectus says the portfolio consists of five high-quality investment properties, three properties under development and two smaller ones held for future development. The five investment properties account for half the portfolio floorpace, including 74,500 square feet valued at £22m in Queen Victoria Street.

The company is unique in the City in that all its properties are confined within this single, narrowly defined geographic



	Net Rents	Pre-Tax Profit
1980	1.15m	0.075m
1981	1.50m	0.25m
1982	1.62m	0.21m
1983	1.75m	0.23m
1984*	3.3m	1.5m

\*Prospectus forecast

area. In any other part of the country, this factor might have net investor criticism. But the City of London is, in many senses, a place apart. The financial and banking revolution has meant above average rental growth and almost continuous demand for office space.

Even so, the company only just got its share issue successfully off the launching pad. Wates City shares were offered for sale on a discount to asset value of 15 per cent at a time when the average property company discount stood at 24 per cent. The premium took account of the quality of the portfolio, the prospectus said.

The share issue was eventually oversubscribed, but it was left to one big institution, Scottish Amicable, to take up a large slice of the available equity. The Wates family and foundation owns 48 per cent of Wates City, and the Scottish Amicable emerged with a 20 per cent shareholding.

Subsequently, the shares have commanded a steady premium to their 100p issue price, rising to 117p at one stage. Wates City's business philosophy is to create and hold investment prime office buildings of architectural distinction which will provide an attractive and flexible working environment.

The management team, headed by 46-year-old Mr Paul Wates, armed with the £25m launch proceeds is confident of continued growth.

### PROFILE

## Giant updates its assets

LAND Securities is by far the biggest UK property group, dominating the field with an ease born of long established pre-eminence. In the last published balance sheet, properties were valued at £2.18bn, and the stock market value of the company's shares is currently twice that of its nearest rival, the Hammerston group.

Having grown rapidly by acquisition in the late 1960s and early 1970s, Land Securities has continued to expand during the past decade through development programmes. Its biggest takeover coup has been City Centre Properties in 1982 and London Real Properties a year later. In 1971, Westminster Trust came into the fold.

The company has no buildings outside the UK. The bulk of operations centre on London, which accounts for some 70 per cent of the property portfolio, although Scotland, and the North West account for about 5 per cent apiece.

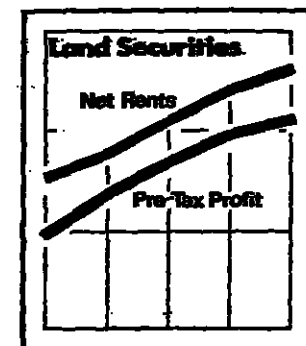
Offices form 60 per cent of the group's properties and retail premises 36 per cent. The group owns 11.1m sq ft of net office space, including 8.2m in the City, West End and Victoria areas of London. The City accounts for almost 20 per cent of the total portfolio.

Land Securities owns 4,364 shop units, including 346 selling areas in excess of 3,000 sq ft. A sixth of the shops portfolio is in the West End, with the Home Counties representing just under half of the retail portfolio. Most of the group's interests outside the south of England are retail.

Profits have been moving ahead smartly in recent years, buoyed mostly by rent reviews. From 1980 to 1984, net rents expanded by more than two-thirds to £104.5m, while pre-tax profits surged from £38m to £54m.

Group performance has been equally impressive lower down the profit and loss account, where it really counts. Net earnings per share almost doubled over the four years and shareholders' returns have risen by 63 per cent. The gross dividend for last year was 10.4p, against 6.4p in 1980.

The profit growth of recent years has been achieved in spite of heavy expenditure on redevelopment and refurbishment. About £170m has been spent since 1982, a substantial part of which is now coming to an end. A clearer picture will emerge when the 1984-85



	Net Rents	Pre-Tax Profit
1980	44.7m	38.1m
1981	70.5m	54.9m
1982	84.2m	67.4m
1983	96m	78.2m
1984	104.5m	84m

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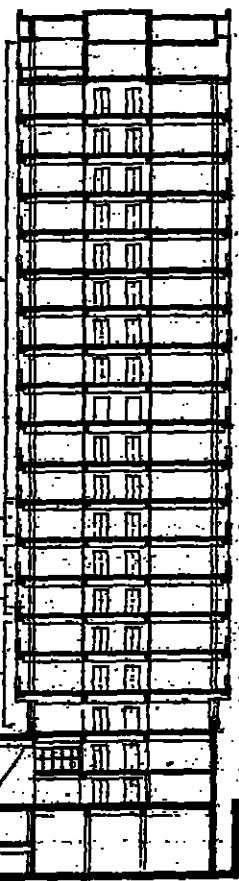
Last year, additions to group properties totalled £77.2m. Through its Ravenscroft Properties subsidiary, the group used to be one of the busiest developers in the country. Over the past few years, the boardroom emphasis has clearly switched from new schemes to improving the asset.

Refurbishment in the City has figured prominently. Over the next few months work will be completed on almost 1m sq ft of central London office space, of which some 70 per cent is pre-let. Construction of 150,000 sq ft of new space is also planned or in hand.

Th past year also produced evidence of heightened portfolio management. Land Securities could never be accused of acting simply as a rent collector but property trading and refinement has gathered pace. In the four years to 1983, property disposals totalled £23.3m; for 1984 the figure was £52.4m as portfolio weeding moved into top gear.

In spite of its size (or perhaps because of it) Land Securities tends to keep a low profile, shunning publicity and saying little. But its actions under the guidance of Lord Samuel of Wych Cross, who set the company on the road to success as plain Mr Harold Samuel in 1944, speak volumes. When the programme of refurbishment is completed in the early spring, something like four-fifths of the group's major office buildings in the City and central London will have been redevalued or up-dated. Buying of freeholds continues apace.

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## MANAGEMENT

Ibstock Johnsen

## Putting the shine on bricks and mortar

Joan Gray reports on a classic case of industrial rebirth

PAUL HYDE-THOMSON, chairman of Ibstock Johnsen, now one of Britain's largest brick companies with an 11 per cent share of the UK market, is facing bricks, never really wanted to be a brick-maker.

"But it was a family firm, and I'd been by blind father's eyes, leading him round the factory since I was five, and my elder brother didn't want to take on the company, so there was just me left."

Despite his initial reluctance Hyde-Thomson has achieved a feat which companies in many other industries could well try to emulate: the transformation of a mature business, with low added value, into an innovative, up-market and highly profitable enterprise.

As a result it has had to fend off a string of admiring suitors over the last few years, including Redland and London Brick, two of the giants of its industry.

Hyde-Thomson has not only been in the forefront of a move to change the shape of the UK brick industry from local purveyors of clay to nationwide manufacturers of an increasingly elaborate range of products.

He has also been a key figure in the move to introduce more sophisticated marketing techniques which present brick not just as a commodity but as a vital element in modern architectural design. And, particularly in recent years, he has helped change the face of Britain's buildings, after decades of concrete and glass brick is back in fashion.

When he succeeded his father in the early 1950s, Ibstock had only one site with two brick plants on it which made the original Ibstock bricks: one a light, and the other a rather darker, shade of buff.

The company now has 10 sites in Britain producing more than 100 types of brick of different sizes, shapes, types, textures, and colours. A similar range is produced by its two subsidiaries in the U.S.

It prides itself on never having been beaten by a customer's requirement for a special brick.

Ibstock's brick products turn-

over in the most recent half-year, to June 1984, was almost £46m, over 40 per cent of it in the U.S. Pre-tax profits crept, to over £4.5m, despite a £1.6m loss in the U.S.; the company says this was "cut back" by profits during the second half, and that it hopes to see a £2m U.S. profit by the end of 1985.

It all started because "I was eager to expand and also had a very ambitious sales director," says Hyde-Thomson. "I realised that just increasing the size of our business in Leicester and trying to sell to a market limited by haulage rates was not going to satisfy either his ambitions or mine."

From the start, Hyde-Thomson was interested in marketing and in shaping the way in which his products were put. "If you just treat brick-making as putting one lump of clay and another and don't take an interest in the aesthetic side, it's all very dull—real hair-shirt stuff."

He also realised the power of architects and the importance of meeting their demands "very early on, from a fierce Glaswegian who tore strips off me as I stood in his office." The discovery has shaped his expansion plans ever since.

One of his first moves in expanding his business was to take on a nationwide sales team—and then he discovered that they were being asked for types of brick other than the standard Ibstock light or dark buff.

"So that led us to embark on a string of acquisitions to develop a national company," he says. "We expanded by acquisition because opening up green-field sites in brick making is hazardous—you never know what you'll get. So we chose existing works—even if they were derelict—so that each had a different raw material to make its own range of products to complement the others and which were well sited to serve new areas."

By the end of the 1960s, Ibstock had widened its product range and achieved national coverage; "but we were still only selling bricks," says Hyde-Thomson.

The solution he saw lay in stimulating demand from architects for whom large-scale brick building offered new opportunities after the glass and concrete decades.

"They wanted to use brick but needed advice in doing so," he said, "and we realised we could encourage architects to use brick if they knew they could come to us for help in solving problems. It would help us sell more bricks—and also made it more interesting for us to contribute to the design and be involved in the architecture rather than just supplying a commodity."

Ibstock opened a chain of brick design centres offering a free advisory service on how best to use brick. It now has six in the UK, with two more opening this year. It held seminars giving technical information about brick, and started designing "specials," including 16th century twisted chimneys.

Providing a continuous supply of new types of brick and free advice on how to use them has helped foster its use as the newly fashionable medium for offices, shops, supermarkets, petrol stations.

And encouraging architects to use bricks for substantial commercial developments has helped Ibstock reduce its dependence on the volatile and fluctuating housing market to the point where only 50-55 per cent of its output is used for housing, compared with the national figure of 75-80 per cent of facing bricks being used for house-building.

As well as encouraging architects to use brick for new developments, Hyde-Thomson is also optimistic about the growing prospects for using it for refurbishing, unsightly and weather-ravaged concrete. Ibstock is currently working on "a badly stained concrete flyover in Ilford, Essex, on which we are putting a new brick facade—and if that is successful, there are several more similar projects on the line."

He is now concentrating on Ibstock's activities in the U.S.—and trying to learn from mistakes made in an earlier

attempt to expand into Holland. From 1972 onwards, Ibstock invested £8m buying six brickworks in the Netherlands, from which it made £4m profit until market changes led to a series of heavy losses. The saga culminated in the sale of Ruga Beheer, the subsidiary, to Redland for £1.2m early in 1983.

Ibstock entered the U.S. market in 1973, with the \$30m purchase of Marion Brick and Glen Gery. This gave it a brick making capacity of 500m a year, all in plants based within reach of the main population centres of the North East.

"We decided to go to the U.S. because the industry was not being marketed there," says Hyde-Thomson. "Not one brick maker had its own showroom. Only dealers had showrooms, and when I was surveying the market, one architect in Manhattan told me he wouldn't have seen me if I'd been a U.S. brick maker because 'they're just farmers who produce a commodity,' and was amazed that I could talk architects' language."

But despite the bright hopes, the U.S. investment has been a loss-maker for the last three years. This was largely because of a decline in the 2 million start-a-year housing market to which Marion and Glen Gery sold 75-80 per cent of their bricks, Hyde-Thomson explains.

Now, after dropping to 280m bricks a year in 1982, output

from Ibstock's U.S. subsidiaries has climbed back to 375m bricks in 1984, and is predicted to rise to 420m in 1985. Hyde-Thomson is expecting a U.S. profit this year of around £2m—the first since 1978-79.

The return to profit has resulted from a combination of factors: a recovery in the U.S. housing market and construction industry; a rationalisation programme involving closing four out of the original 11 plants; and a \$6m marketing offensive.

As in the UK, Ibstock has focused its marketing in the U.S. on encouraging architects to use brick to help expand sales, outside the fluctuating housing market.

These marketing efforts have already borne fruit. The value of the order book in the U.S. for this year is more than 50 per cent higher than last year, indicating a value of sales of around \$60m a year, says Hyde-Thomson, with a far higher proportion of commercial and prestige projects than before.

"But what particularly pleases me," he adds, "is that we have just been asked to design New York State Parks' new public lavatories. They are not fine buildings, but it is a nice principle to be asked to do them instead of them just asking some civil engineers to knock up a few concrete blocks behind the laurel bushes."

When Martin Luther nailed his 95 theses on the church door at Wittenberg in 1517 he was signalling a malaise within the Roman church which was to end in schism. The assassination of Grand Duke Sergius in the Kremlin in 1905 was a signpost of harsher things to come, as liberal discontent turned into the Revolution of 1917. The anorexic child may be vividly symptomatic of a wider malfunctioning of the family system.

The survival and well-being of all social systems, whether large or small, seem to require the ability to read the signals afresh all the time and play to new rules as the nature of the game changes. If growing awareness of the need for change meets rejection from a system which cannot easily adapt, it will harden into confrontation and crisis.

The over-riding requirements for a system to survive hinge on the reliability of data and the system's ability to respond flexibly. These two requirements imply a profound change in the way we look at companies and measure their well-being, compared with the present method of "financial accounting after the event." How can corporate leaders organise to see "the data more clearly and more fast off the blocks when its significance is understood?"

There are various ways of measurement but a self-appraisal exercise might usefully start with the following questions about the company's fit with the ground rules for a "best" company.

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Corporate staff. The traditional role for corporate functions is to second-guess line management and handle the important cases themselves. The result is demotivating and slows down the process. The best way to manage across boundaries, instead of down separate tunnels of expertise.

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Very few companies can claim "best" practice against these criteria. Yet because they determine the quality of data and the flexibility of response to conditions signals, they are the essence of corporate creativity.

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## Corporate culture

## 'Drink with the drivers'

Leslie Dighton draws up fresh ground rules for best practice

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## TECHNOLOGY

## HYDROGEN FUEL FOR VEHICLES

## How to go with gas

BY DAVID FISHLOCK, SCIENCE EDITOR

A POLLUTION-FREE Ixveo truck equipped with a small chemical reactor making hydrogen fuel on demand for its engine is expected to take to the roads of Switzerland this spring.

This demonstration vehicle supercedes a prototype 17-ton hydrogen-powered truck which first ran in 1983. The most obvious difference is clear from the accompanying illustration. In the demonstrator, the reactor has shrunk to leave room for a payload.

The biggest attraction of hydrogen as a fuel is that it burns cleanly to leave nothing but water vapour. The biggest drawback—analogue to that of the electric car—is the cost of carrying enough energy to offer a useful performance.

Experiments by Exxon in the U.S. early in the 1970s concluded that the idea of an on-board chemical reactor making hydrogen from a hydrocarbon fuel on demand was a feasible alternative to storing hydrogen—except that no such reactor existed. The former Energy Research and Development Administration (now the U.S. Department of Energy) funded the work as a potential new use for off-peak power.

This in turn drew the interest of the Swiss Federal Institute for Reactor Research (EIR) at Würenlingen, which saw hydrogen-powered vehicles as a way of smoothing the peaks in daily demand on national electricity supply system which was changing from hydro-electric to a heavy dependence on nuclear power. Switzerland's five nuclear plants will be providing about 35 per cent of its electricity this year.

At EIR, Prof. Mieczyslaw Tauler worked closely with a British chemical engineer, Prof. David Rippin, at the Swiss Federal Institute of Technology in Zurich, to design the 80-litre reactor. With the collaboration of the Fiat-owned Diesel Engine Research and Engineering Company in Arbon, they converted a six-cylinder Saurer to hydrogen-burning at ten bar.

Hydrogen is made continuously by the on-board reactor at this pressure, made by catalytically cracking methyl cyclohexane, a convenient liquid carrier very similar to petrol, by passing it over a precious metal catalyst at 400 degrees C. The Saurer can store 17 kg of this carrier, which the reactor reduces to 16 kg of toluene. From a cold start, toluene is injected into the engine, to produce exhaust gas that heats the reactor and sets hydrogen flowing.

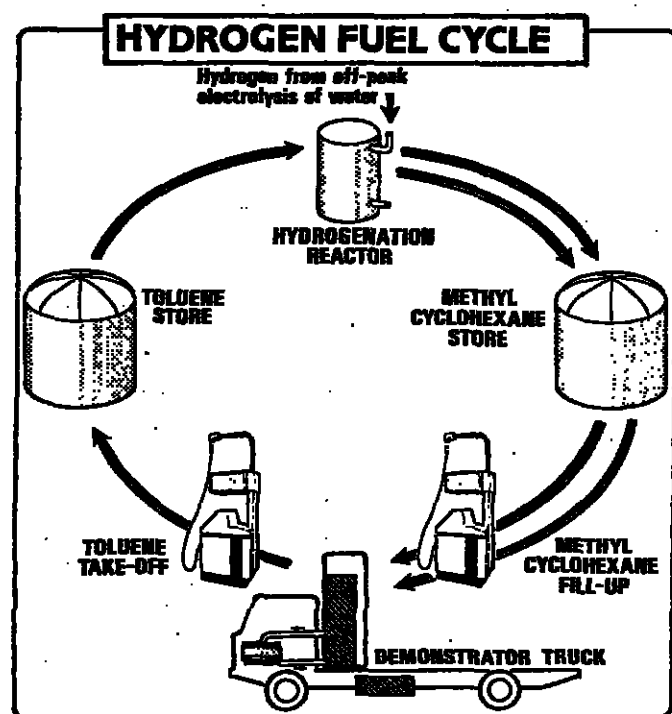
The reactor produces 9 kg of hydrogen an hour enough for an engine for about 100 kW of mechanical energy. In tests made independently by Aluisse researchers for EIR, a catalyst made by Universal Matthey Products in England, was chosen from five tried. Some 70 kg of this dehydrogenation catalyst containing 0.25 per cent by weight of platinum and 0.25 per cent of rhodium is used in the Saurer's reactor. The platinum content alone is worth about \$1,600. But the catalyst is one which already sells to refineries and promises to have a very long life in the vehicle because of the purity of the carrier it is cracking.

The demonstrator's reactor is of the same size, and designed to give much the same performance, says Prof. Rippin. His university team designed it in collaboration with the Basel chemical plant company Berrans. Prof. Rippin says it is essentially the same system but made more compact by better layout of the ancillaries, to pack into a narrow section behind the cab.

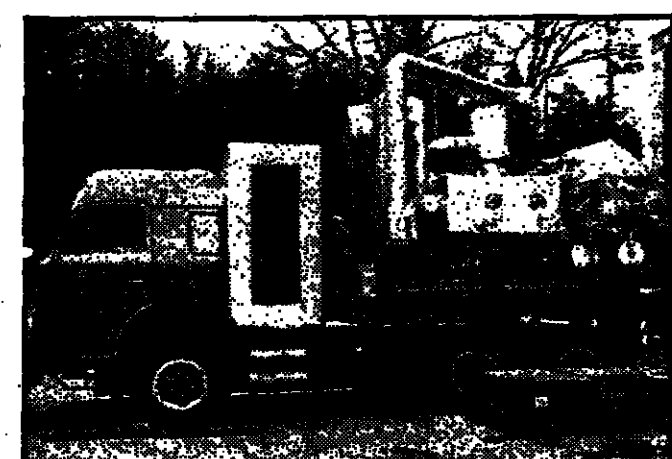
If adopted for a vehicle fleet, the infrastructure needed to service this mobile reactor includes a "gas station" which makes methyl cyclohexane from toluene. This can also be done catalytically, simply by hydrogenating toluene. The hydrogen for this purpose would be made by electrolysis using off-peak electricity, at night, at weekends or during the summer dip in demand.

Thus the gas station would exchange the toluene by-product of the vehicle's reactor for fresh methyl cyclohexane. The researchers estimate that 90 per cent of the energy consumed would come from electricity and only 10 per cent from the combustion of fossil fuel (toluene). They also claim that the methyl cyclohexane-toluene-hydrogen (MTH) cycle makes use of well-proven technology.

But in order to avoid loss of toluene and the associated air pollution, the researchers are thinking of a small store of hydrogen gas which could be



The demonstrator truck is a 17-ton lorry which will start operating sometime this spring. The hope is to shrink the size of the equipment to run on smaller cars.



used for start-up. There is also a plan to build a reactor for the re-hydrogenation of toluene, in order to demonstrate that the fuel cycle can be closed. "But this is well-established technology—there should be no difficulty in realising it," Prof. Rippin says.

A neat, tidy system, it is how Andrew Holt, development manager of Universal Matthey Products, sees the MTH cycle. Later this year the collaborators hope to persuade interested companies to form a consortium of suppliers and users that will steer it towards commercial operation.

Known as the 2955 radio com-

## POWER STATION MONITORING

## Detectors keep the oil burning

BY MAURICE SAMUELSON

DESPITE its inflammable qualities, the oil used in some of Britain's power stations is so heavy that, unless handled properly, it can suddenly cease burning and reduce the flow of electricity into the grid.

To prevent this, the Central Electricity Generating Board has fitted its 2,000 MegaWatt plant at Fawley, Southampton, with a new generation of infrared equipment for scanning the flames inside its four boilers.

The new system is the Digiscan IR3, developed and manufactured by Airol-Flegas, one of a handful of companies specialising in flame scanners and high intensity oil and gas burners.

The Digiscan IR3 is designed to discriminate between each boiler's 32 burner flames. It has a solid state viewing head, and monitoring for faults is undertaken through signal processing circuitry.

This compares the flame signal from the viewing head with a predetermined threshold level; an electronic bar graph provides a continuous display of flame and threshold levels enabling comparative checks at any time.

It also enables the fuel to be burned more thoroughly, thus

reducing the power station's emission of sulphur dioxide or nitrogen oxide.

Fawley power station, which has been on full load since early in the miners' strike, is the first CEB station to be fitted with this equipment, although an earlier version was used at the North Tees power station.

Airol-Flegas also have test units at Littlebrook, on the Thames, and at Inverkip, in Scotland, and also hopes to supply it to the Pembroke power station, South Wales.

Since 1969, when Fawley's first unit was commissioned, it relied on an ultra violet based system to see if the burner heads were fully alight.

However, the system required a lot of maintenance and was not always reliable. This became particularly noticeable when, because of the high cost of oil, it was used only for peak loading, and was being switched on and off each morning and evening.

Roger Guy, Fawley's assistant production engineer in charge of instruments, says that the UV equipment did not always show the operator when oil burners had gone out. Apart from reducing electricity output,

an unchecked flood of oil into a partly firing boiler could, in circumstances, have caused an explosion.

A further reason for installing the new scanner was that Fawley had been told that the oil it receives by pipeline from the nearby Esso refinery was likely to become heavier in future. The oil would become harder to burn and more liable to go once it was alight.

The new equipment, Guy adds, gives Fawley more flexibility. Although each boiler has 32 oil burner heads, packed close together in rows of eight, the higher quality flames mean that it can now produce its declared electrical output on only 26 or 27 burners.

Although this has helped to boost the station's performance throughout the coal strike, the Airol-Flegas equipment had already been ordered before the strike began. It cost £32,000, compared with the £1.8m a day which the plant has recently been spending on fuel.

Based at West Drayton, Middlesex, Airol-Flegas has subsidiaries in the U.S., West Germany, Spain, France and Italy. It became part of the Glossop group in 1982 and in 1983 it acquired CEA Combustion. More on 0895 444031.

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## SPEEDING UP FAULT DETECTION&lt;/







## FINANCIAL TIMES

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Friday February 8 1985

## Bad line on phone tapping

FOR A government committed to enhancing the freedom of the individual in a liberal democracy, the proposals for legislation on phone tapping published yesterday are deeply inadequate.

There is no doubt that if it had not been pushed into action by the separate but related activities of the House of Lords, the European Court of Human Rights and Lord Diplock's report into the interception of communications the Government would today be doing nothing at all.

Under pressure, it is doing the minimum possible by proposing to *tidy* and not necessarily improve the rules concerning authorised interceptions of mail and telephone calls. The white paper's title, *The Interception of Communications in the United Kingdom*, is a deliberate left itself decades behind the times by omitting to consider the wider problem of the extent to which technology enables anybody, authorised or otherwise, to undertake the most widespread, pervasive and intrusive surveillance for whatever reason—criminal, personal, commercial, state.

The fact that it is very difficult to know what to do about today's extraordinarily sophisticated eavesdropping developments, enabling embassies, banks, police and terrorists to spy on each other, is no reason to pretend the problem does not exist or need thought. The white paper should have been entitled *Surveillance in the UK*. As it is not we remain with civil remedies against most forms of covert surveillance.

However, even taken within the limited terms of reference it sets itself the Government's paper has little to commend it. It makes the traditional plea in defence of absolute secrecy and at every sensitive point of balance between the rights of the individual and the interests of the state, it fails the individual.

Authorisation for the interception of phone calls or mail will, as now, be given only by the relevant secretary of state, Home Secretary, Foreign Secretary, Northern Ireland Secretary or Scottish Secretary. Subject to this, the scope for interception of international calls and mail appears to be limitless. Warrants will be valid for six months which offers an excess-

sively long period of potential covert intrusion into privacy for most imaginable cases other than suspected terrorist activity. The material gained by interception can be used for investigative purposes but will not be admissible in criminal proceedings. However, there is no provision giving individuals the right to be told afterwards that they have been intercepted, even if suspicion of crime or complicity proves groundless.

The paper also argues lamely for not publishing statistics about the extent of interception but effectively demonstrates its own case by showing the total number of taps and mail interceptions in each year since 1980 (except for Northern Ireland which is understandably excluded). The figures are low enough—between 500 and 600 in total each year—to suggest that their publication might allay public anxiety, although the statistics become meaningless in the wider context of surveillance discussed earlier.

## Surveillance

The paper proposes—as its alternative means of redress to an action at the European Court of Human Rights—a tribunal of five legally qualified people to whom the citizen can apply if he believes his communications have been improperly intercepted. Its decisions would be final and it could require the relevant secretary of state to pay such compensation as it thought fit.

This is clearly an important move to make ministerial decisions to invade individual privacy subject to independent review. The one drawback is that the present proposals will make it virtually impossible for a citizen ever to know that he has been intercepted in the first place. This is probably too important an issue to be left out of the democratically accountable domain. A better solution might be for the supervision, scrutiny and control of surveillance activities to be the responsibility of members of parliament. The Falklands war inquiry showed that a select committee of privy councillors can sit in private select committee to consider the most sensitive of issues without endangering the national interest.

## Gatt—a gamble to be faced

There is a persistent sense of alarm that the world is heading for a quagmire of protectionism and debt in the 1990s. The open trading system is pushed actively out of its deepening rut.

Jacques de Larosiere, managing director of the International Monetary Fund, was only voicing a feeling in many Western capitals when he said in Stockholm on Wednesday that failure now to resist protectionism would threaten the debtors' national recovery and global economic system itself.

Developing countries to repay their debts need to increase their exports by 5.5 per cent a year in real terms, he said. Trade barriers to the industrialised countries would have to be lowered or abolished, and the U.S. should act swiftly and credibly to reduce its budget deficit and lighten the interest rate burden on debtor nations.

The notion that long-term economic disparities might be corrected by reform of the international financial system and credit institutions has not cut much ice outside the Third World. That leaves only one way forward: to negotiate in the General Agreement on Tariffs and Trade for a return to a less discriminatory trading regime in which the developing South and industrialised North can properly complement one another.

It is therefore welcome news that M. Willy De Clerq, the EEC's commissioner for external relations, has put the proposal of a new Gatt round at the top of his agenda for his meeting with trade policy officials of the U.S., Japan and Canada in Kyoto this weekend. M. De Clerq will be stressing the importance of a pre-negotiation consensus which offers the prospect of a balance of mutual concessions between the industrial and developing countries. Disagreement at the start, leading to failure after possibly years of discussion, could shatter the Gatt's increasingly tenuous authority.

British ministers are actively supporting the U.S.-Japanese initiative. But their worry is that America's excessive concentration on demands most clearly in the U.S. interest, such

EUROPE'S wine crop is running over. The annual surplus produced by the Community is now sufficient to fill 1,500 Olympic-sized swimming pools.

Taking the good years with the bad, the EEC now produces 16.5bn litres of wine annually, but drinks only 13.5bn of them. In 1984-85 about 27 per cent of the EEC's total table wine output—wine with an alcoholic content of more than 9 per cent (8.5 per cent for Germany and Luxembourg)—will be distilled into industrial alcohol.

The difference between the subsidised price paid to the vineyard and the market price of the alcohol will probably exceed Ecu 1.2bn (£700m) in its cost to the European taxpayer.

This makes the wine problem, in cash terms, only about one-fifth as large as the Community's dairy over-production. But the cost of the wine regime has risen by a factor of 12 over the last decade and, although a tougher approach to wine was agreed by the EEC member states at the Dublin summit in December, it remains far from certain that the new regime will get a rigid grip on production.

Furthermore, since the summit, the fine detail of how further restraint should be applied has become bogged down in committee.

France, anxious to bind its main Italian rival firmly to the compromise deal, this week came forward with new proposals aimed at bringing stricter financial sanctions to bear if the rules are not rigorously enforced.

But these addenda are opposed by other member states both as legally dubious and as a threat to the negotiating timetable which requires full agreement by the end of the month.

Any substantial delay to a deal could have serious ramifications as Spain is insisting on seeing the final regulation before concluding its membership talks with the EEC. A lengthy rewriting of the Dublin agreement could threaten to push the negotiations back to a point where the January 1 1986 accession date could no longer be met.

Meanwhile, friction between the U.S. and the EEC over the question of wine subsidies is mounting. U.S. grape growers are pushing for countervailing duties against imported EEC wine and the European Commission

## Lesser wines are losing popularity

sion now wants a Gatt disputes panel to rule on the argument.

The basis of Europe's wine problem is an irrespressible rise in production set against a perplexing fall in the amount drunk. Despite the fact that the acreage of European vineyards has been reduced by 10 per cent since 1978, 1.5bn hectolitres today, wine production has risen to an average of 16.5bn litres over the last four years from an average of 15.4bn litres in the decade of the 1970s. The reason is that higher yielding vines are continually being planted, and standards of cultivation and pest control continuously refined.

The falling consumption of wine is easier to prove than to

## EEC WINE LAKE



Graham Leary

## Why vines may have to be destroyed across Europe

By Nicholas Colchester in London, James Buxton in Rome and Ivo Dawnay in Brussels

explain. In France, where the mass consumption of wine in the industrial north followed the introduction of railways that could ship it from the south, the spread of middle-class prosperity has worked against wine consumption. Whereas the purchase of good wines to sip has risen, that of cheaper wines to swig has fallen disproportionately. The country is still the heaviest wine drinker in the Community, but now downs less than 85 litres per head per year compared with 130 litres after the war.

In Italy, which is the EEC's largest volume producer with about 40 per cent of total output, the decline of the stenta and the spread of clean water supplies have both worked against wine consumption. It was 113 litres per head in 1970 and is down to 81 litres today. Set against such a reversal, the growing British taste for wine has little impact. Fillion, and fall in the tax of wine relative to that on other drinks, have helped UK consumption to rise, but only from about five litres per head per year to eight litres today.

The fact that tendential falling consumption and mounting production are not reconciled at a lower, market-clearing price reflects the existence of an EEC price for wine, which, like other prices under the Common Agricultural Policy, is designed to protect the wine-grower's standard of living rather than expose him to uncomfortable reality. The price regime does include incentives against over-

production but, in the pre-Dublin model at least, they did not work.

Under the old system each country was obliged to submit its estimates for the production, consumption and stocks after the harvest each autumn. The Brussels Commission would then assemble a composite view of the state of the market in the coming year. The Commission would in theory ordain compulsory distillation when stocks look set to exceed five months' production but, in the pre-Dublin model at least, they did not work.

Italy admitted last month it had failed to declare stocks of some 1.9bn litres, equivalent to over one tenth of the Community's annual production. The Italian Government claims it is impossible to assess the output of 1.6m vineyards and that small producers first try to sell their wine privately and only bring the remainder to the compulsory distillation when stocks look set to exceed five months' production but, in the pre-Dublin model at least, they did not work.

normal consumption at the end of the marketing year (August). This would force the grape-growers with the highest yields to sell designated quantities of wine to the distillers as a supposedly punitive 60 per cent of the EEC target price.

There were three major flaws in this approach. First, the target price was allowed to climb steadily despite the existence of surpluses. Second, there was an obvious incentive for countries to underestimate their stocks and production

because this would avert compulsory distillation.

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market whatever the figures submitted by EEC Governments. Compulsorily distilled wine will pay only 50 per cent of the target price, falling to 40 per cent after 100 litres have been distilled. It demands a freeing of the target price if the annual wine surplus is more than 10 per cent of consumption. It makes it more lucrative for vineyardists to pull up vines and more difficult for them to replant.

But the most significant element in the new approach is that quotas for compulsory distillation are fixed by region with the figures increasing progressively with yield. This is intended to force very high yielding vineyards—those achieving as much as 15,000 litres of wine per hectare—to send as much as 80 per cent of their produce into compulsory distillation.

The Italians vigorously opposed this system because they felt it would penalise Italian producers of medium quality wines to the advantage of poorer quality producers in France. The approach was only pushed through when Germany switched its support from Italy to France as a result of a deal which France agreed to oppose any EEC ban on the sugaring of wine—a practice widely used in relatively sunny Germany to boost the alcoholic content of wine up to a level that makes it eligible for Community financial support.

It is indicative of the labyrinthine workings of the wine regime that this compromise

will be expensive. Although German wine makes up only a small proportion of the EEC's output, the Commission has masterminded an expensive system for producing the added sugar from Italian grapes. This grape sugar regime now costs Ecu 300m per year, or one quarter of the cost of the wine problem, and to top that German producers do not like the grape sugar and tend to opt for ordinary sugar.

The new wine regime has certainly involved a considerable transfer of power from national politicians to the Commission. Yet it remains to be seen whether the "theoretical" toughness of the new approach will be translated into practice. The Ministry of Agriculture in Rome, for example, has so far given no indication of how it will be administered, though the Italian Government insists that it will try to enforce the new policy. The reluctance of several EEC member states to enforce the "Superferry" on milk suggests that the new regional distillation quotas will only bite gradually. Agricultural representatives of member states, who are meeting in Brussels in the Special Committee on Agriculture to flesh out the details of the wine regime, are worried that the machinery to enforce the distillation quotas does not exist.

The expansion of the Community to include Spain and Portugal adds to the farm ministers' problems. Portugal's 200m to 300m litres annual production is only marginally in surplus and poses few problems. But Spain's yearly output, now averaging more than 10m litres or 25 per cent of total Community output, is of serious concern.

Furthermore, Spain's production restrictions on irrigation and rigorous replanting rules are notably tougher than those of the Community. If EEC regulations were imposed some experts believe Spanish production would increase by 20 per cent. This "plan" for national quotas should cope with this; but any loosening of the rules could be harmful. Either way, Spain is certain to add to overall costs.

The enforcement of quotas is not an end in itself. The object of the new wine regime is not to turn wine into alcohol at the taxpayer's expense, but to discourage the grapes from being grown in the first place. The "saw-tooth" factor means a regime tough enough

to force the uprooting and abandonment of vineyards—even the changing of landscapes that different regions have come to regard as natural.

In Italy, farming means wine production. There is scarcely a village that does not have a vineyard. It is difficult to find an Italian who does not either own one or is related to someone who does. "How can we ask a peasant in the hills to abandon his historic culture?" they ask with a defiant outburst at the Ministry of Agriculture. When seen in these terms it becomes clear what a long road lies between a technical decision on distillation quotas in Dublin and the turning up of vine stocks across the length and breadth of Europe.

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## POLITICS TODAY

# The week the clocks changed

By Malcolm Rutherford



Key decisions must be taken soon by (from left) Mr Nigel Lawson, Mr Norman Fowler, Mr Tom King and Lord Young

THIS WAS the week when the clocks were changed in Whitehall. They are now pointing forwards to the next general election rather than backwards to the last.

Of course, there is a lot of fallout still to come—defeat in the House of Lords, Tory rebellions in the House of Commons—since the legislation on the reform of local government is not yet through. But in so far as the Government thinks strategically, that belongs to the past.

Thoughts are now turning to the next Queen's Speech in the autumn, which will lay out the guidelines for the next parliamentary session. Coming in the mid-term of the Government's life, that session will be crucial. It will determine whether Mrs Thatcher's administration still has the initiative or is running out of steam. It should also show not only whether the Tories are capable of producing a credible manifesto for the next election, but a programme for the 1990s as well.

Not the least reason for the new sense of excitement at the heart of government is the apparent collapse of the miners' strike. The outcome is not ideal for anyone concerned. But, at least from the Government's point of view, it is not at all bad.

Mr Arthur Scargill, the miners' president, did not bring down the administration, nor

## Taking on vested interests might relieve poverty

did he succeed in bringing about power cuts. The economy was disrupted by the strike, but economic growth continued. It has proved possible to sit out a major industrial dispute, and that is a big—almost an historic—gain. The Government can now turn its mind more comfortably to the future.

However, thoughts would have been moving in that direction in any case. For the big question now is what Thatcherism in its second wind is going to offer, or indeed whether there is going to be a second wind to speak of.

Preparatory to the Queen's Speech, some of the key decisions will have to be taken in

the next few weeks. There are three main areas:

● The Budget, due on March 19.  
● The review of the social services undertaken by Mr Norman Fowler, the Secretary of State.  
● The package to alleviate unemployment which should be introduced jointly by Mr Tom King, the Environment Secretary, and Lord Young, the recently appointed Minister without Portfolio, and former head of the Manpower Services Commission.

All of these matters are coming to a head and they contain some overlap. Two points in particular are not leading to any easy answers.

The first is how far the Government should go to take on vested interests. For instance, the middle classes who complain at the idea of student loans rather than grants and cling to mortgage interest rate relief.

The second is how much further the Government can go in seeking to limit public expenditure.

The two points are related because if you did take on vested interests, you might save money and thus reduce the claims on the Exchequer. You might also have more to spend on relieving poverty and even on improving the infrastructure.

Perhaps unfortunately, the Budget comes first—unfortunately because it may prevent the decisions on economic, em-

ployment and social policy being taken together.

This time more than ever the so-called "Budget judgment" will be taken at the last minute, and not only because of the temperament of Mr Nigel Lawson, the present Chancellor. Recent events in the markets have made the judgment more than usually difficult. Yet if Mr Lawson has the £1.5bn or so he has sometimes suggested he has to give away, it is a safe bet that most of it will go on raising tax thresholds taking people out of tax. There might also be some relief on taxes paid by employers, for there should be no doubt that employment has become one of the Government's key concerns on which it knows its future depends.

Still open, and under intense discussion, is the matter of striking vested interests: for example, should the Treasury risk the wrath of the Fourth Estate and the academic world by extending VAT to newspapers and books? Possibly we shall not know the answer until Budget day, but the problem is that if the Government bows to a lobby of donors about an alleged "tax on knowledge," how is it going to stand up to other vested interests later?

Some of those lobbies may be much bigger. They include the public service unions who may be touched by Mr Fowler's review of social policy, the second major area where decisions

have to be taken shortly.

Mr Fowler is not unambitious about his purposes. He said at the start: "Taken together, the various reviews and studies I have set in hand constitute the most substantial examination of the social security system since the Beveridge report 40 years ago."

And the Government knows that perfectly well. If it comes up with a damp squib or refuses to tackle obvious inefficiencies, it will be unable to have another go this side of a general election. The problem, as Mr Fowler outlined it at the beginning, is that too many people are receiving benefits with one hand and paying tax with the other. In the middle there is a whole army of officials simply engaged in shifting funds around to no great purpose.

The aim is not necessarily to save money, but to use it better: in short, simplifications of the system. More benefit could then go to those who need it most. But it would be naive to suppose that this can be done without a great deal of political turmoil, and we do not yet know how far the Government is prepared to go. That is another area where the battle between those who wish to consolidate the current tax treatment of the system and those who wish to be more radical is beginning to rage. There are also, incidentally, the reactions of the Tory backbenchers to be taken into account.

We come now to the King-Young or Young-King measures on unemployment. Part of this political necessity. The Employment Secretary cannot be seen to be announcing ever higher figures for those out of work month after month. Although it is true to say that the number in work is rising because of demographic shifts and more women seeking jobs, the unemployment trend will have to be shown to be changing for the better.

Yet there is also the emergence of a new language. "We must," said one of the Prime Minister's closest advisers, "take up the moral challenge."

Lord Young is specifically charged with responsibility for the 14-18 year olds, though there are also to be new measures for the long-term unemployed of all ages. A vast extension of the Community Programme seems likely, paying people to help the old, the lonely, the poor and the sick, and to deal with housing in despair. Yet here again there could be clashes with vested interests—the social services and the local authorities who think that they do that already and who do not want any interference. Once more, it is uncertain how far the Government will go.

Although they do not use the word, they prefer "training" Ministers appear to be moving towards a new concept of apprenticeships on the German

model of not learning a single trade, such as welding, but a wider range of skills and with the full participation of industry.

Vested interests arise again. The teachers are already disaffected and not all of them are enamoured of the idea of increasing vocational training in schools. Industry, too, and the unions will have to be persuaded to play their full part in the apprenticeship programme. But that is the kind of challenge which the Government is beginning to face if it is to reduce unemployment.

Most of the decisions will be taken in the next few weeks, which is why though it may appear calm enough on the surface, this is really the testing time for the future of Mrs Thatcher's administration.

Major judgments on public expenditure can probably wait until the late summer, partly because if the recovery continues revenues should rise. But one should not be surprised to see a continuing strengthening of the Treasury team: the handling of last year's public expenditure review is not regarded as satisfactory.

To end on a guessing note, Mr Norman Tebbit, the Trade and Industry Secretary, will become party chairman in September, shortly before the party conference. He would like the job, would be very good at

## Apprenticeships for a wide range of skills

it and the timing would be right—two or three years before the next election. That would coincide with the way Mr Cecil Parkinson took over in Mrs Thatcher's first term. There will be a wider reshuffle to go with it.

Finally, one cannot help noting a steady rise in his colleagues' estimation of Mr Michael Heseltine, the Defence Secretary. Almost all of them have a good word for him, not least for his perceptions of Merseyside after the Toxteth riots. He drew attention to problems with which the Government is only now coming to grapple. He is also emerging as the from-runner for the succession.

"In order to measure real economic income more accurately, the Treasury proposes that inflation adjustments be made in the calculation of depreciation allowances, capital gains the cost of goods sold from inventories, and interest income and expense."

This is not, regrettably, a paragraph leaked from Mr Nigel Lawson's forthcoming Budget speech but an extract from the U.S. Treasury's recent, explanatory, treatise on tax reform. Although inflation is higher in the UK than in the U.S., it would be surprising to hear a British Treasury minister (or official) admit the need for all these adjustments.

In Britain, almost everybody from the Chancellor down seems to suffer from two misconceptions. First, that the battle against inflation has already been won in the sense that 5 per cent inflation no longer causes any serious distortions. Second, that it is extraordinarily difficult to adapt either the tax system or company accounts to the fact of continually rising prices. This, presumably, was the logic behind Mr Lawson's serious deviation from fiscal neutrality last year when, by de-indexing the corporate tax system, he began to tax fictitious profits.

The illusion that inflation of "only" 5 per cent is tantamount to price stability is a legacy of the inflationary 1970s. Previous generations worried about the consequences of 2 per cent inflation. Yet the difference between 2 per cent and 5 per cent is huge. At 5 per cent, prices double in 14 years and rise 50-fold in a lifespan of 30 years; at 2 per cent, they rise 32 per cent in 14 years and 5-fold in a lifetime. Price stability, once taken for granted, requires a climate in which investors are uncertain whether, in the next few years, prices are likely to fall slightly or rise slightly.

In a rational world, ever-inflating nominal values could serve no purpose whatsoever. The common presumption that it is impractical to adjust interest income and expense for inflation. The present failure—on both sides of the Atlantic—to grasp the nettle is having serious consequences. The 60 per cent taxpayer getting interest of 12 per cent when inflation is 5 per cent is paying tax at more than 100 per cent on his real return. Borrowers, for example home buyers, are getting a corresponding subsidy. The net result is a higher equilibrium level of real interest rates and lower saving and investment.

A perfect inflation adjustment would be complex: lenders would require an annual tax deduction on every loan equal to the principal multiplied by the rate of inflation. But rough justice in the taxation of savers and borrowers could be achieved quite simply. Tax authorities could issue a table showing the fraction of nominal interest which should be excluded from tax at various inflation rates. The table shows the U.S. Treasury's calculations on the basis of a 6 per cent real return. Thus if inflation is 5 per cent, 45 per cent of interest income should be automatically relieved of tax.

This scheme suggests that, with a little ingenuity, many of the distortions caused by inflation could be ironed out with minimal administrative costs. At present, the UK Government's drive for economic efficiency is hampered because rhetoric about achieving price stability prevents it admitting either that 5 per cent inflation causes serious distortions or that the tax system could and should be adapted to minimise these non-neutralities.

Inflation rate (%)

Nominal interest rate (%)

Optimal exclusion rate (%)

0 6 0

2 8 10

4 10 25

6 12 45

8 14 62

10 16

\* Proportion of interest income which should be relieved of tax for an assumed real return of 6 per cent. Source: U.S. Treasury.

## Never ending pits

From Mr R. Wallace

Sir—Mr Andrew Glyn (February 6) proposed that "uneconomic" pits should not close where the costs of closure (redundancy pay, dole payments, lost tax and costs allocated to the pits which would not in fact be saved) exceed the present level of subsidy.

Intrinsically he assumes that no one would close alternative work. Would he care to explain what happens progressively to this country when his theory is applied nationally and outside the mining industry?

R. Wallace, Knapp Orchard House, Knapp Lane, Painswick, Glos.

## Joining the EMS

From the Editor, Financial Outlook

Sir—The possibility of Britain joining the European monetary system is once again under active discussion. Those in favour argue that membership would have helped to support sterling while opponents suggest that pressure on the exchange rate from falling oil prices cannot be resisted by the EMS.

Fixed exchange rate systems do not work unless the member countries follow consistent economic policies and are all affected in the same way by external events (intervention may be used to reduce short term variability but cannot alter fundamentals). The first of these requirements is met by the agreement among EMS members to follow convergent policies. Britain has in effect been doing this. There is no mechanism, however, in the EMS to deal with the effects of falling oil prices. This does not matter for existing members, all of whom are affected in roughly the same way by oil prices, but if Britain were a member the EMS would fail to meet the second requirement.

For Britain to be able to join the EMS, its current vulnerability to oil price changes must be spread among all the member countries. This could be done by the British Government issuing, to other member governments, bonds whose return was dependent on oil prices in return for conventional debt. Variations in payments on these oil bonds would offset the effect of changes in oil prices, both on the balance of payments and on public sector borrowing. The obstacles to British membership of the EMS would then be no greater than for any other country.

This proposal involves the sharing of the risk of changes in oil prices, currently borne by Britain alone. We would be taking out a type of insurance

## Letters to the Editor

and would pay a premium by offering a higher return on the oil bonds at currently expected oil prices than we received on the other countries' conventional debt. We could even try to argue that the existing members of the EMS would benefit from our entry and should pay part, or all, of this premium.

This is not a "giving away" of the oil revenues, but simply a capitalisation of the currently expected stream of revenues minus an insurance premium. A drawback is that if there is an unexpected rise in oil prices, we would in effect have to hand over the extra revenue to other European countries, but the advantage is that the size of our manufacturing industry would no longer have to adjust whenever oil prices change unexpectedly. Had such a system been in operation at the end of last year, uncertainty about the Organisation of Petroleum Exporting Countries would not have been reduced or avoided altogether.

Giles Keating, London Business School, Sussex Place, NW1.

## Farm bankruptcies in America

From Mr W. Sykes

Sir—The spectre of massive farm bankruptcies in America is the result of over-borrowing rather than depressed prices for farm produce. The value of maize has been maintained at around \$3 per bushel over the last four years by the various programmes of set-aside and PIR, whereas land prices in the same period have dropped by 50 per cent, wiping out half the collateral on loans.

After the Great Grain Robbery of 1976, grain prices looked like continuing upward, and farmers started a spiralling buying spree of land. Leverage was the name of the game and as land values rose so farmers raised their borrowings to match. When banks had provided the second and third mortgage on the same land and refused to lend any more, farmers turned to the Farmer's Home Administration, a Federal sponsored lender of last resort.

In 1981, after the grain embargo, land prices plateaued, but continuing high interest

rates and flat grain prices meant the mortgage payments could not be met, and the consequences were inevitable. Last year in Georgia, 70 per cent of farmers were reported to be technically bankrupt. One particular farm I saw had mortgages of \$2,300 per acre and was on offer at \$1,500, and probably is still unsold.

The problem now lies with the banks, many of which are small and local and face the same future as their clients if they try to call in their loans. The total sums involved are enormous, supposedly of Latin American size, so what happens in the next few months when farmers need to borrow more for this spring's seed and fertilizer could have world wide repercussions.

Lord Swinton, in his stirring speech, suggested we followed the Americans and borrowed our way into growth, advice which hopefully will not be followed by British farmers. William D. Sykes, Lodge Farm, Bishop's Castle, Shropshire.

## A start again iconoclast?

From Mr A. Broke

Sir—Mr Kidd (January 31) expresses a fine feeling for the misfortune of the taxpayer. But he knows perfectly well that there are two wholly separate questions. The first—and certainly the most important—is the level at which the taxpayer ought to be shorn to allow Government to meet its bills. The second is the extent to which it is reasonable to suffer a taxation system in which complexity is the norm. He and I may earn our daily bread from it, but we both know that the state of affairs is currently absurd beyond disbelief.

Government needs money—there is no point in arguing about the principle. Mr Kidd believes that right now it needs too much and I agree with him. But it can be neither right nor logical to found on this a platform for opposing legislative simplification so long as tax rates remain high.

The level of taxation is a political decision. If you choose to vote Conservative and remain a supporter of the Government throughout its tragic failures to reduce the tax burden so be it.

On the other hand the complexity of taxation is the consequence of a lack of common

sense. It has nothing to do with politics and still less with equity. The Chancellor appeared to make a start in the 1984 Finance Act in abolishing life assurance premium relief and stock relief and in phasing out accelerated depreciation. What he actually did was to add another 200 pages to the legislation.

An intelligent Chancellor would stop accepting the status quo and quite simply start again. The present Chancellor has the added advantage of a self-perceived iconoclasm. The combination ought to be irresistible.

A. V. B. Broke, Arthur Young McClelland Moores & Co, 7 Rolls Buildings, Fetter Lane, EC4.

## Anomalies, anomalies

From Mr J. Findlay

Sir—Your editorial of February 7 was of the opinion that the current tax treatment of lump sum pension payments constitutes a clear anomaly. With due respect, this is not the case here, since to date it has been the Government's policy to encourage personal savings for the provision of pensions in retirement. An anomaly will only arise if there is a quirk in the rules which frustrate the intentions of the legislation.

While I would agree that there is a case for changing the rules now on the grounds of "fiscal neutrality" I am not clear as to why such a basis should be imposed on the pensions industry to the exclusion of certain other privileged areas of tax exemption, if indeed logic is the name of the game.

The proposal would appear to be another instance of tinkering with the system, whereas what is required, in fact, is a radical overhaul. The Government should therefore appoint a Royal Commission to undertake a comprehensive review of tax and social security provisions with a view to their simplification. It should reconsider the advantages of a tax credit system which was discussed at length not so long ago.

If the Chancellor is concerned with the fiscal neutrality of the savings market, he should give urgent consideration to the position of the National Savings Bank which, as from April 6, will become almost the sole repository for the small savings of the non-taxpayer in the absence of a system for repayment of tax which has been deducted under the composite rate scheme.

Now there is an anomaly for you!

J. M. Findlay, Bainsford House, Main Road, Cardross, Dumbarton.

# UP TO NOW IT'S BEEN A PIECE OF CAKE.

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# SECTION II - INTERNATIONAL COMPANIES

## FINANCIAL TIMES

Friday February 8 1985

**TAYLOR  
WOODROW**  
TEAMWORK IN ENERGY  
WORLDWIDE

### Jardine Fleming signs landmark Japanese deal

By JUREK MARTIN IN TOKYO

JARDINE Fleming yesterday became the first foreign financial institution to enter into a Tokyo-based joint venture, with one of the eight Japanese trust banks.

The new investment advisory company brings together Jardine Fleming, jointly owned by Jardine Matheson, the Hong Kong trading company, and Robert Fleming, the British merchant bank, and the Yasuda Trust group, whose trust-banking arm, with about \$35bn in assets, ranks fourth among Japanese trust banks.

As well as classical trust fund management, Japanese trust banks share with insurance companies a monopoly over the lucrative pension fund business which many see as the most attractive source of funds in the country and one which is due for a considerable shake-up.

Mr Alan Smith, the managing director of Jardine Fleming Holdings and the new company's chairman,

said the joint venture basically comprised of a marriage of Jardine Fleming's expertise in fund management and Yasuda Trust's assets and clients.

He also put the agreement very much in the context of the Ministry of Finance's desire to revitalise the trust banking sector.

Later this year eight foreign financial institutions will probably be granted trust bank licences with the clear hope that this will lead to Japanese pending fund management standards being raised.

Over the past six months, several investment advisory joint ventures involving Japanese trust banks and foreign institutions have been mooted, but these have either to get off the ground or are not Tokyo-based. Merrill Lynch has established an investment advisory service independently.

Jardine Fleming, which opened its Tokyo office in 1971, is believed

to be the largest foreign investor in the Japanese equity market, with more than \$2bn in funds under management. It is one of the 10 foreign firms to possess a Japanese securities licence.

Yasuda Trust, like other firms in its sector, has been noted for extremely cautious investment policies, with the overwhelming majority of its foreign holdings in high-quality, but not necessary high-yielding, bonds.

Mr Smith suggested that greater diversification into foreign equities could be expected, a process in which Jardine Fleming's experience and expertise would be important.

The new company, called Jardine Fleming Investment Advisers (Japan) is 51 per cent owned by Jardine Matheson, the balance by the Yasuda group, which also includes leading Japanese life, fire and marine insurance companies.

### Year-end turnaround boosts Allied

By Terry DODSWORTH in New York

ALLIED Corporation, the U.S. chemicals group, saw its net profits leap last year to \$488m, or \$5.93 a share, from \$36m, or 9 cents, in 1983. Sales increased by 8 per cent from \$9.9bn to \$10.7bn.

A large part of the advance was achieved in the fourth quarter - Allied lost \$23m, or \$3.18 a share, in the corresponding period last year, as a result of charges related to the closure of its machine tool and liquid fertilizer businesses.

In the fourth quarter of 1984, profits surged back to \$68m, or 90 cents a share, while sales rose by 6 per cent from \$2.5bn to \$2.6bn.

Mr Edward Hennessy, chairman, said that fourth-quarter after-tax income from the company's basic businesses was up 85 per cent over the 1983 quarter. This reflected the "significant" turnaround by divisions in the industrial and technology sector, he said, and strong performances in the automotive, aerospace and chemicals sectors.

Oil and gas income was essentially unchanged. Mr Hennessy said the company was experiencing strong demand in its aerospace businesses for communications equipment related to defence applications and for airborne and support systems for military products.

The group's automotive activities doubled their income from 1983's fourth quarter as a result of the continued strength of all North American vehicle markets and improved operations in Europe and Latin America.

Higher income from the chemicals sector was the result of improved performances by industrial fibres, engineered plastics, chrome chemicals and hydrofluoric products.

In the company's oil division, proven reserves at the year end were up by 17 per cent over 1983. On a continuing operations basis, income for 1984 of \$457m, or \$5.82 a share, improved by 8 per cent over the previous year.

### Rothschild sells broker to Royal Bank group

By DAVID LASCELLES, BANKING CORRESPONDENT, IN LONDON

CHARTERHOUSE J. Rothschild, the UK financial services group, is to sell its stake in Kitcat & Aitken, the stockbroking firm.

The purchaser is Orion Royal Bank, the London merchant banking subsidiary of the Royal Bank of Canada, Canada's largest bank, which is keen to enter the UK securities and government bond markets.

The terms of the sale, Charterhouse's second in a month, were not disclosed. But like many of the deals which are changing the face of the British financial establishment, they include an inducement for Kitcat's senior staff to stay on.

They also provide for Orion to raise its stake to 100 per cent when stock exchange rules permit.

Mr Jacob Rothschild's CJR group bought its 28.9 per cent stake in Kitcat for about £500,000 (\$580,000) in 1982. But following the failure of his proposed merger with Allied Hambro last summer, which would have

created a large retail institution, Mr Rothschild decided to concentrate on the wholesale market instead, and make disposals which run counter to the current fashion.

Last month he sold the Charterhouse Japhet merchant bank, acquired only a year previously, to the Royal Bank of Scotland. As a result of these sales, CJR - now to be renamed J. Rothschild Holdings - has nearly £800m in unencumbered funds for deal-making. The group will form its own firm to join the London stock exchange.

Mr John Abell, chairman and chief executive of Orion Royal, said the alliance with Kitcat will enable the bank to develop its expertise in equities and fund management, and expand its corporate finance business.

Orion had earlier failed to clinch a deal with Pender & Boyle, a leading broker in the gilt market. Orion Royal now intends to apply to the Bank of England to become a primary dealer in the new-style

gilt markets. A separate subsidiary capitalised at about £15m will be created.

Kitcat said it valued its relationship with CJR but the change of strategy had obliged it to reconsider its future. The approach for the deal had come from Orion, with whom Kitcat had had a long association as the Royal Bank's London broker.

CJR's chief executive, Mr David Montagu, was also formerly head of Orion.

Mr Nils Tanbe, the senior partner of Kitcat & Aitken at the time of the CJR acquisition, will remain with CJR where he is now investment director. CJR will also retain the fund management and private client business it bought from Kitcat in 1982.

With 27 partners, Kitcat is a medium sized stockbroker known for its institutional clientele and research in the insurance, transport and leisure industries.

### Manville boosts earnings by 15%

By Our New York Staff

MANVILLE, the U.S. building products company which is struggling to settle heavy asbestos-related damages claims increased its earnings by 15 per cent last year, as sales rose from \$1.7bn to \$1.8bn.

The Denver-based group is currently operating under Chapter 11 bankruptcy regulations, which it sought as a means of protecting itself from the damages claims until it reached an overall agreement on how they should be settled.

It said yesterday that "substantial uncertainties" still exist over the eventual settlement of the claims, and that the company has accordingly not recorded any liability for them in its consolidated statement.

Litigation is still continuing over the health claims.

The results show that in 1984 the company charged \$26m against earnings for asbestos-related costs, against \$20m in the previous year. After this charge and a provision of \$17m against Chapter 11 costs, down from \$18m in 1983, net earnings amounted to \$77m, or \$2.18 a share against \$67m or \$1.76 a share in 1983.

In the fourth quarter, net income rose sharply from virtually break even to \$18.2m, or 50 cents a share, while sales rose from \$451m to \$458m.

Manville said that it was not possible to make any "reasonable estimate" at present of the ultimate cost of the asbestos-related health claims, because it was not clear how many would be valid and how much they would cost.

The amount of insurance available to settle claims was also unclear, it added.

So far, Manville has come to an agreement with six of its insurers for a total of \$426m for cover on its asbestos-related claims. It has said that it expects to receive an additional \$600m from 21 other insurance companies, but there is no indication whether these funds will be sufficient to cover the global claims against the company.

### Albright to buy Mobil division

By Tony JACKSON in London

ALBRIGHT & Wilson, the British chemicals company, is to acquire the phosphorus business of Mobil in the U.S. The deal has been agreed between Mobil and Tenneco, Albright's U.S. parent, for an undisclosed sum.

Albright is acquiring two plants, in Charleston, South Carolina, and Fernald, Ohio, employing about 200 people. The plants produce a range of phosphorus compounds, with a particular emphasis on phosphoric acid, a chemical mainly used for fertilisers.

Albright dominates the British market for phosphorus and phosphoric acid, taking its entire supply of elemental phosphorus from its plant in Long Harbour, Newfoundland.

The company will be examining the possibility of supplying the Mobil plants from Long Harbour

### Chevron to dispose of Gulf Canada stake

By BERNARD SIMON in Toronto

CHEVRON, the U.S. oil group, has agreed to offer its newly-acquired majority shareholding in Gulf Canada for sale to Canadian investors in return for government approval of the acquisition. Chevron acquired the Canadian interest as part of its takeover last year of the U.S. based Gulf parent company.

By approving Chevron's investment in Gulf Canada and at the same time obtaining an undertaking that the stake will be offered for sale, the federal Government has achieved the twin objectives of encouraging new foreign investment in Canada's energy industry while not offending influential groups calling for greater domestic participation in the oil and gas sector.

The new Conservative Government in Ottawa, elected last September, has pledged to improve the investment climate sored by the national energy programme adopted by the previous Liberal Government in 1980.

Chevron said yesterday that its offer will remain open until the end of April, and that it is willing to negotiate with any "responsible and credit-worthy" Canadian-controlled purchaser to sell its interest at a "fair and reasonable price."

Gulf Canada, 60 per cent owned by Gulf Corporation, posted a profit of C\$800m (U.S.\$231m) last year on sales of C\$5.3bn.

In a separate but related development, the Government approved Tenneco's acquisition of Getty Oil's Canadian assets, following last year's takeover of the U.S. parent company.

Tenneco has undertaken, however, to reduce its stake in Texaco Canada from 90 per cent to about 80 per cent by the end of 1987.

Mr Pat Carney, the Canadian Energy Minister, said yesterday that Tenneco has also agreed to invest at least C\$1.7bn in exploration and other projects in Canada over the next four years.

### Babcock in Egypt coal deal

By Ian RODGER in London

BABCOCK Contractors, a subsidiary of Babcock International of Britain, has won a contract in Egypt to oversee the \$90m (\$108.8m) redevelopment of the Maghara coal mine in the Sinai.

Babcock, with the assistance of the British Mining Consultants subsidiary of the National Coal Board, will design, procure and manage the UK supply for the project which could eventually be worth some £50m.

Babcock's own mining equipment manufacturing companies are expected to figure prominently among the UK suppliers.

The company will also provide management, supervision and training support in Egypt.

The mine, which is 12km south-west of El Arish, is expected to produce 400,000 tonnes of sub-bituminous coal per year by 1989.

### Schlumberger profits rise 20% in quarter

By TERRY DODSWORTH in New York

SCHLUMBERGER, the U.S. oil services group, increased its net profits last year by 9 per cent, with a strong 20 per cent surge in earnings coming in the fourth quarter.

Net income for the year amounted to \$1.18bn, or \$4.10 a share, against \$1.08bn, or \$3.73, in 1983. Sales rose to \$6.4bn from \$5.8bn.

In the fourth quarter, earnings rose to \$311m, or \$1.06 a share, compared with \$260m, or 90 cents, in the previous year. Revenue increased to \$1.7bn against \$1.49bn.

Mr Jean Riboud, the group's chairman, said that the increase in earnings for the year was mainly attributable to higher well activity in North America, improved results at Fathelid Semiconductors and Computer Aided Systems, and higher interest income.

Lower oilfield activity outside North America had to some extent offset these improvements, Mr Riboud added, while the acquisition of 50 per cent of Dowell in North America reduced earnings by \$38m, or 10 cents a share. Dowell's operations increased revenue by \$218m.

Schlumberger said that it will consolidate the results of Sedco, the recently-acquired offshore drilling contractor from the beginning of the current year.

British Petroleum yesterday signed an agreement with the Government of Thailand to prospect for oil and gas over an area covering 10,000 sq km north of Bangkok, Dominick Lawson in London writes.

During the initial three-year period of the licence BP will spend about \$25.5m carrying out seismic work and drilling at least two exploration wells. It is the first time that BP has had an onshore licence in Thailand.

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The nominal amount of this loan remaining outstanding after 2nd March 1985 will be U.S. \$2,000,000.

The following are the numbers of the bonds drawn:

46	48	49	50	207	213	217	219	220	506	510	518	519	523	528	529	541	548	551	553
558	562	569	570	573	575	576	577	579	580	586	588	589	598	612	614	626	631	633	635
670	671	677	681	683	685	686	687	689	690	696	698	699	708	722	724	734	739	741	743
864	866	876	877	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894
1282	1284	1286	1287	1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303
1523	1526	1528	1529	1530	1531	1532	1533	1534	1535	1536	1537	1538	1539	1540	1541	1542	1543	1544	1545
1729	1805	1819	1824	1826	1828	1829	1830	1831	1832	1833	1834	1835	1836	1837	1838	1839	1840	1841	1842
2124	2130	2139	2164	2180	2189	2193	2201	2204	2218	2230	2286	2320	2341	2347	2348	2366	2585	2597	2598
2609	2620	2622	2625	2628	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646
2789	2790	2796	2797	2800	2804	2805	2807	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820
2839	2842	2860	2861	2865	2873	2876	2878	2880	2881	2888	2913	2918	2923	2956	2957	2970	2974	2975	2976
2980	2996	2997	3004	3006	3009	3013	3016	3022	3059	3060	3070	3076	3077	3078	3079	3080	3081	3082	3083
3135	3147	3148	3149	3161	3163	3168	3187	3206	3210	3229	3235	3253	3259	3260	3271	3281	3289	3290	3291
3330	3320	3325	3334	3338	3339	3343	3345	3346	3347	3348	3349	3350	3351	3352	3353	3354	3355	3356	3357
3632	3634	3635	3636	3637	3638	3639	3640	3641	3642	3643	3644	3645	3646	3647	3648	3649	3650	3651	3652
3791	3796	3797	3807	3809	3814	3816	3817	3818	3819	3820	3821	3822	3823	3824	3825	3826	3827	3828	3829
4145	4147	4150	4152	4158	4164	4213	4214	4215	4216	4217	4218	4219	4220	4221	4222	4223	4224	4225	4226
4402	4403	4404	4416	4421	4427	4430	4433	4439	4446	4477	4482	4486	4488	4489	4490	4491	4492	4493	4494
4621	4645	4650	4651	4657	4671	4673	4684	4685	4686	4687	4688	4689	4690	4691	4692	4693	4694	4695	4696
4782	4788	4791	4801	4821	4826	4827	4846	4849	4852	4858	4868	4871	4907	4909	4915	4919	4925	4927	4947
4952	4957	4961	4962	4963	4969	4970	4994	5001	5012	5032	5039	5051	5073	5074	5075	5081	5085	5087	5108
5121	5138	5141	5157	5173	5175	5177	5185	5200	5203	5205	5231	5232	5264	5265	5272	5322	5323	5334	5351
5358	5359	5360	5366	5378	5385	5389	5393	5395	5411	5415	5416	5417	5418	5419	5420	5421	5422	5423	5424
5576	5600	5602	5621	5629	5630	5651	5677	5690	5692	5693	5707	5712	5713	5714	5715	5716	5717	5718	5719
5739	5791	5809	5814	5839	5840	5841	5842	5843	5844	5845	5846	5847	5848	5849	5850	5851	5852	5853	5854
5938	5946	5947	5953	5954	5955	5956	5957	5958	5959	5960	5961	5962	5963	5964	5965	5966	5967	5968	5969
6106	6108	6110	6118	6128	6138	6142	6143	6145	6153	6157	6159	6160	6161	6163	6169	6174	6175	6180	6195
6201	6206	6209	6236	6239	6250	6259	6260	6263	6274	6275	6293	6315	6321	6323	6334	6338	6350	6352	6353
6364	6376	6383	6386	6396	6410	6411	6445	6448	6451	6452	6455	6475	6480	6494	6521	6524	6548	6560	6588
6597	6599	6600	6604	6609	6610	6612	6646	6643	6648	6653	6674	6675	6680	6721	6764	6765	6770	6780	6792
6802	6807	6816	6818	6828	6831	6840	6847	6850	6861	6866	6868	6869	6870	6871	6872	6873	6874	6875	6876
6899	6892	6993	7025	7029	7035	7044	7048	7053	7066	7079	7081	7087	7093	7099	7101	7108	7113	7161	7164
7171	7184	7191	7201	7205	7208	7210	7214	7230	7235	7248	7255	7267	7269	7271	7278	7284	7306	7307	7326
7327	7333	7342	7349	7354	7359	7360	7373	7374	7383	7395	7397	7399	7406	7409	7420	7421	7433	7434	7435
7436	7437	7442	7452	7466	7469	7474	7478	7486	7488	7489	7496	7511	7519	7521	7531	7538	7539	7550	7564
7567	7571	7585	7590	7601	7611	7619	7627	7638	7646	7651	7652	7653	7654	7655	7656	7657	7658	7659	7660
7713	7718	7728	7731	7734	7736	7738	7746	7816	7827	7828	7830	7840	7861	7863	7877	7880	7902	7917	7918
7932	7933	7945	7950	7952	7964	7973	7977	7999	8003	8004	8011	8020	8046	8047	8062	8072	8073	8076	8084
8094	8096	8117	8122	8125	8135	8151	8153	8156	8207	8210	8220	8258	8392	8397	8413	8416	8429	8435	8436
8436	8452	8457	8473	8476	8477	8478	8488	8493	8499	8519	8520	8525	8527	8538	8540	8548	8571	8579	8580
8581	8589	8590	8624	8625	8626	8627	8628	8629	8630	8631	8632	8633	8634	8635	8636	8637	8638	8639	8640
8641	8642	8643	8644	8645	8646	8647	8648	8649	8650	8651	8652	8653	8654	8655	8656	8657	8658	8659	8660
8661	8662	8663	8664	8665	8666	8667	8668	8669	8670	8671	8672	8673	8674	8675	8676	8677	8678	8679	8680
8681	8682	8683	8684	8685	8686	8687	8688	8689	8690	8691	8692	8693	8694	8695	8696	8697	8698	8699	8700
8701	8702	8703	8704	8705	8706	8707	8708	8709	8710	8711	8712	8713	8714	8715	8716	8717	8718	8719	8720
8721	8722	8723	8724	8725	8726	8727	8728	8729	8730	8731	8732	8733	8734	8735	8736	8737	8738	8739	8740
8741	8742	8743	8744	8745	8746	8747	8748	8749	8750	8751	8752	8753	8754	8755	8756	8757	8758	8759	8760
8761	8762	8763	8764	8765	8766	8767	8768	8769	8770	8771	8772	8773	8774	8775	8776	8777	8778	8779	8780
8781	8782	8783	8784	8785	8786	8787	8788	8789	8790	8791	8792	8793	8794	8795	8796	8797	8798	8799	8800
8801	8802	8803	8804	8805	8806	8807	8808	8809	8810	8811	8812	8813	8814	8815	8816	8817	8818	8819	8820
8821	8822	8823	8824	8825	8826	8827	8828	8829	8830	8831	8832	8833	8834	8835	8836	8837	8838	8839	8840
8841	8842	8843	8844	8845	8846	8847	8848	8849	8850	8851	8852	8853	8854	8855	8856	8857	8858	8859	8860
8861	8862	8863	8864	8865	8866	8867	8868	8869	8870	8871	8872	8873	8874	8875	8876	8877	8878	8879	8880
8881	8882	8883	8884	8885	8886	8887	8888	8889	8890	8891	8892	8893	8894	8895	8896	8897	8898	8899	8900
8901	8902	8903	8904	8905	8906	8907	8908	8909	8910	8911	8912	8913	8914	8915	8916	8917	8918	8919	8920
8921	8922	8923	8924	8925	8926	8927	8928	8929	8930	8931	8932	8933	8934	8935	8936	8937	8938	8939	8940
8941	8942	8943	8944	8945	8946	8947	8948	8949	8950	8951	8952	8953	8954	8955	8956	8957	8958	8959	8960
8961	8962	8963	8964	8965	8966	8967	8968	8969	8970	8971	8972	8973	8974	8975	8976	8977	8978	8979	8980
8981	8982	8983	8984	8985	8986	8987	8988	8989	8990	8991	8992	8993	8994	8995	8996	8997	8998	8999	9000

The above bonds may be presented for redemption at par on or after 2nd March 1985 at the offices of the paying agents named on the coupons for payment in the manner specified in Condition 5 of the Terms and Conditions of the bonds. Each of these bonds when presented for redemption must bear the coupon dated 2nd March 1985, otherwise the amount of the missing coupon will be deducted from the sum to be repaid.

Principal Paying Agent: N M Rothschild &amp; Sons Limited New Court St Swinburn Lane London EC4P 4DU

## Upturn at Swiss Volksbank

By Our Financial Staff

SWISS VOLKSBANK, which ranks as number four in the Swiss banking league, reports increased earnings for 1984 and is stepping up its dividend.

Against SwFr 62.2m in 1983, after tax profits have improved to SwFr 75m (\$27m) a gain of a fifth. Depreciation and provisions for the year were little changed at SwFr 100.7m.

When unveiling a SwFr 72m rights issue last October, Volksbank told shareholders that profits for 1984 would be favourable.

It is now lifting its dividend to SwFr 60 a share from the SwFr 53 paid for 1983. The payout improvement means that Volksbank has increased its dividend by a third (from SwFr 45 in just two years).

The bank's balance sheet total at the end of the year was SwFr 22.5bn, compared with SwFr 22.1bn in September and SwFr 20.6bn at the end of 1983.

Volksbank has experienced a year of steady banking progress. After nine months, its deposits were showing increases of 5 per cent while advances at



# A SHIFT IN THE BALANCE OF POWER ON WALL STREET

**T**he impact of The Equitable's acquisition of Donaldson, Lufkin & Jenrette (DLJ) is already being felt on Wall Street.

With a capital base of over \$300 million and new muscle from The Equitable's \$50 billion in assets, DLJ has emerged as the Street's new powerhouse.

When it set up shop in 1959—one of the few major investment houses to open in the last 30 years—DLJ had shallow pockets, with scarcely \$100,000 to fill them. Today, DLJ has pockets deep enough to compete for Wall Street's biggest deals.

When they got together, The Equitable was looking for more than just Wall Street talent and DLJ was looking for more than just money. It was a marriage made in heaven. You couldn't find greater financial resources or greater skill in risk and asset management than at Equitable, and you couldn't find brigher entrepreneurs than at DLJ.

In an industry where the median age of the top 10 investment banking and brokerage firms is 75, the youthful 25 year-old DLJ seems quite comfortable with The New Entrepreneurialism. In fact, DLJ is one of its shining successes.

"With Equitable's formidable resources," comments a Wall Street analyst, "DLJ will be to the *new economy* what its predecessors have been to the *old*."

Today, DLJ and its Pershing Division (the nation's leader in providing sophisticated correspondent services to independent securities firms, banks and financial institutions) already participate in 15% of all trading done on the New York Stock Exchange.

As the number two broker on Wall Street, DLJ is pushing hard to move into first place. With The Equitable's additional financial clout, DLJ is now in a position to make a comparable run in the investment banking arena as well.

"When you're making major underwriting commitments or trading the big blocks of stocks and bonds," states Dudley

Eppel, veteran Director of DLJ's equity trading, "all the talent and brains in the world don't matter unless you have the money. Now we have both. It's a whole new ballgame."

Few should take DLJ's challenge lightly. In an intensely competitive industry, DLJ's earnings have increased tenfold in the past six years, making it the only Wall Street firm to post 22 consecutive quarters of earnings increases.

"We don't want to be all things to all people," emphasizes a head of DLJ's new product development team. "We merely want to be all things to the professional marketplace. And we'll do it the way we always have—by offering innovative products to our clients." In fact, innovation has underwritten DLJ's success.

When DLJ first opened its doors, it set its sights on the institutional market, anticipating that market's potential long before the competition. In 1960, institutional investors accounted for less than 30% of all shares traded. Today they account for over 70%. Many believe DLJ had more than a little to do with it.

"They were astute at seeing change," says Professor Samuel Hayes of the Harvard Business School. "None of the other firms was set up to accommodate sophisticated portfolio managers. DLJ pioneered the long research report."

Anticipating change is DLJ's enduring talent.

In 1970, DLJ caused another shift in the balance of power on Wall Street, but of a different kind.

Seeing Wall Street undercapitalized, DLJ broke with tradition and went public. At first it was viewed as heresy, but soon many of its most vocal critics followed suit. Over the years, that revolution has brought billions of dollars in additional capital to Wall Street.

That alone is sufficient to assure DLJ's place in financial history.

But history is something DLJ likes to make. Not be a part of. And uniting with The Equitable begins a whole new chapter.

# DLJ



## NOTICE OF REDEMPTION BY THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

To the Holders of Debentures Payable in  
lawful money of the United States of America  
Of the Issue Authorized by  
By-law Number 35 of 1975  
U.S. \$25,000,000 9 1/4% Debentures 1990  
Issued March 15, 1975  
due March 15, 1990

Principal Amount Redeemable March 15, 1985 -  
Less: Credit of Principal Amount of debentures purchased and cancelled  
Balance of Principal Amount to be Redeemed

U.S. \$3,038,000  
U.S. \$ 818,000  
U.S. \$2,220,000

### THE REGIONAL MUNICIPALITY OF OTTAWA-CARLETON

NOTICE IS HEREBY GIVEN that, pursuant to the requirements of authorizing by-law 35 of 1975, The Regional Municipality of Ottawa-Carleton is obliged to redeem and will redeem on March 15, 1985 Debentures in U.S. \$1,000 denomination as per the numbers listed herein of the above mentioned Debenture Issue at 100% of the principal amount of each Debenture plus accrued interest to the redemption date.

COUPON BEARING DEBENTURES TO BE REDEEMED IN FULL EACH IN THE DENOMINATION OF U.S. \$1,000  
AND BEARING THE FOLLOWING NUMBERS:

00024	00057	00079	00106	00129	00134	00211	00215	00226	00237	00238	00255	00303	00370	00376	00385	00391	00402
00409	00405	00441	00442	00457	00463	00468	00469	00473	00474	00479	00480	00501	00507	00514	00523	00534	00541
00547	00550	00552	00558	00561	00563	00569	00573	00574	00578	00583	00584	00588	00594	00595	00596	00597	00605
00607	00608	00673	00677	00682	00683	00688	00689	00690	00693	00695	00699	00705	00712	00716	00729	00743	00749
00750	00760	00766	00782	00783	00789	00792	00798	00801	00809	00820	00827	00831	00839	00841	00845	00847	00848
01047	01069	01080	01095	01096	01102	01124	01128	01130	01139	01144	01145	01146	01150	01157	01161	01168	01185
01188	01189	01234	01235	01236	01238	01240	01241	01242	01247	01248	01250	01251	01252	01253	01254	01255	01256
01559	01564	01568	01571	01572	01573	01574	01575	01576	01577	01578	01579	01580	01581	01582	01583	01584	01585
02234	02235	02239	02246	02255	02261	02262	02279	02280	02306	02327	02360	02363	03170	03174	03175	03185	03207
03220	03229	03235	03240	03241	03247	03252	03262	03264	03273	03291	03295	03319	03324	03379	03416	03429	03433
03467	03478	03483	03485	03494	03497	03748	03753	03757	03764	03768	03773	03780	03866	03894	03959	04006	04012
04027	04032	04055	04061	04076	04077	04081	04083	04084	04085	04086	04087	04088	04089	04090	04091	04092	04093
04224	04226	04235	04237	04247	04248	04253	04259	04263	04274	04279	04292	04296	04302	04309	04318	04340	04347
04363	04367	04369	04374	04384	04402	04406	04439	04444	04446	04468	04472	04494	04501	04508	04523	04533	04545
04561	04567	04572	04578	04587	04593	04595	04604	04615	04626	04648	04649	04659	04666	04670	04677	04682	04688
04693	04694	04699	04703	04710	04725	04732	04764	04768	04769	04769	04769	04776	04780	04785	04787	04791	04792
04808	04814	04819	04825	04829	04835	04836	04839	04842	04843	04845	04847	04849	04851	04853	04854	04855	04856
04867	04869	04873	04886	04899	05017	05022	05028	05044	05055	05057	05062	05066	05068	05084	05095	05099	05101
05104	05106	05112	05117	05121	05132	05148	05154	05155	05171	05176	05183	05198	05204	05209	05216	05220	05225
05233	05235	05239	05243	05247	05252	05258	05268	05278	05283	05288	05293	05298	05303	05308	05313	05318	05323
05329	05335	05339	05343	05347	05352	05358	05363	05368	05373	05378	05383	05388	05393	05398	05403	05408	05413
05419	05424	05429	05434	05439	05444	05449	05454	05459	05464	05469	05474	05479	05484	05489	05494	05499	05504
05509	05514	05519	05524	05529	05534	05539	05544	05549	05554	05559	05564	05569	05574	05579	05584	05589	05594
05599	05604	05609	05614	05619	05624	05629	05634	05639	05644	05649	05654	05659	05664	05669	05674	05679	05684
05689	05694	05699	05704	05709	05714	05719	05724	05729	05734	05739	05744	05749	05754	05759	05764	05769	05774
05779	05784	05789	05794	05799	05804	05809	05814	05819	05824	05829	05834	05839	05844	05849	05854	05859	05864
05869	05874	05879	05884	05889	05894	05899	05904	05909	05914	05919	05924	05929	05934	05939	05944	05949	05954
05959	05964	05969	05974	05979	05984	05989	05994	05999	06004	06009	06014	06019	06024	06029	06034	06039	06044
06049	06054	06059	06064	06069	06074	06079	06084	06089	06094	06099	06104	06109	06114	06119	06124	06129	06134
06139	06144	06149	06154	06159	06164	06169	06174	06179	06184	06189	06194	06199	06204	06209	06214	06219	06224
06229	06234	06239	06244	06249	06254	06259	06264	06269	06274	06279	06284	06289	06294	06299	06304	06309	06314
06319	06324	06329	06334	06339	06344	06349	06354	06359	06364	06369	06374	06379	06384	06389	06394	06399	06404
06409	06414	06419	06424	06429	06434	06439	06444	06449	06454	06459	06464	06469	06474	06479	06484	06489	06494
06499	06504	06509	06514	06519	06524	06529	06534	06539	06544	06549	06554	06559	06564	06569	06574	06579	06584
06589	06594	06599	06604	06609	06614	06619	06624	06629	06634	06639	06644	06649	06654	06659	06664	06669	06674
06679	06684	06689	06694	06699	06704	06709	06714	06719	06724	06729	06734	06739	06744	06749	06754	06759	06764
06769	06774	06779	06784	06789	06794	06799	06804	06809	06814	06819	06824	06829	06834	06839	06844	06849	06854
06859	06864	06869	06874	06879	06884	06889	06894	06899	06904	06909	06914	06919	06924	06929	06934	06939	06944
06949	06954	06959	06964	06969	06974	06979	06984	06989	06994	06999	07004	07009	07014	07019	07024	07029	07034
07039	07044	07049	07054	07059	07064	07069	07074	07079	07084	07089	07094	07099	07104	07109	07114	07119	07124
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07219	07224	07229	07234	07239	07244	07249	07254	07259	07264	07269	07274	07279	07284	07289	07294	07299	07304
07309	07314	07319	07324	07329	07334	07339	07344	07349	07354	07359	07364	07369	07374	07379	07384	07389	07394
07399	07404	07409	07414	07419	07424	07429	07434	07439	07444	07449	07454	07459	07464	07469	07474	07479	07484
07489	07494	07499	07504	07509	07514	07519	07524	07529	07534	07539	07544	07549	07554	07559	07564	07569	07574
07579	07584	07589	07594	07599	07604	07609	07614	07619	07624	07629	07634	07639	07644	07649	07654	07659	07664
07669	07674	07679	07684	07689	07694	07699	07704	07709	07714	07719	07724	07729	07734	07739	07744	07749	07754
07759	07764	07769	07774	07779	07784	07789	07794	07799	07804	07809	07814	07819	07824	07829	07834	07839	07844
07849	07854	07859	07864	07869	07874	07879	07884	07889	07894	07899	07904	07909	07914	07919	07924	07929	07934
07939	07944	07949	07954	07959	07964	07969	07974	07979	07984	07989	07994	07999	08004	08009	08014	08019	08024
08029	08034	08039	08044	08049	08054	08059	08064	08069	08074	08079	08084	08089	08094	08099	08104	08109	08114
08119	08124	08129	08134	08139	08144	08149	08154	08159	08164	08169	08174	08179	08184	08189	08194	08199	08204
08209	08214	08219	08224	08229	08234	08239	08244	08249	08254	08259	08264	08269	08274	08279	08284	08289	08294
08299	08304	08309	08314	08319	08324	08329	08334	08339	08344	08349	08354	08359	08364	08369	08374	08379	08384
08389	08394	08399	08404	08409	08414	08419	08424	08429	08434	08439	08444	08449	08454	08459	08464	08469	08474
08479	08484	08489	08494	08499	08504	08509	08514	08519	08524	08529	08534	08539	08544	08549	08554	08559	08564
08569	08574	08579	08584	08589	08594	08599	08604	08609	08614	08619	08624	08629	08634	08639	08644	08649	08654
08659	08664	08669	08674	08679	08684	08689	08694	08699	08704	08709	08714	08719	08724	08729	08734	08739	08744
08749	08754	08759	08764	08769	08774	08779	08784	08789	08794	08799	08804	08809	08814	08819	08824	08829	08834
08839	08844	08849	08854	08859	08864	08869	08874	08879	08884	08889	08894	08899	08904	08909	08914	08919	08924
08929	08934	08939	08944	08949	08954	08959	08964	08969	08974	08979	08984	08989	08994	08999	09004	09009	09014
09019	09024	09029	09034	09039	09044	09049	09054	09059	09064	09069	09074	09079	09084	09089	09094	09099	09104
09109	09114	09119	09124	09129	09134	09139	09144	09149	09154	09159	09164	09169	09174	09179	09184	09189	09



## Edwardes has his initial confrontation with holders

BY CHARLES BACHELOR

SIR MICHAEL EDWARDES, chairman of Dunlop, will today face his shareholders for the first time since he took over the leadership of the debarred tyre and rubber products company in November.

Sir Michael's decision to postpone a vote on the £122m restructuring package to a later meeting, when Dunlop will have received its defence against the £23m takeover bid from BTR, is expected to take much of the steam out of the encounter.

But he will explain to shareholders, including BTR, with its 28 per cent stake in Dunlop's preference shares, how far the reconstruction of Dunlop has progressed.

Edwardes, 52, is too clear what detail, if any, he will give of the company's performance in 1984 and prospects for 1985.

Two of Dunlop's most persistent critics, Professor Robert Pritchard, leader of the Dunlop Shareholders' Association, and Mr Ron Haave, a U.S. invest-

ment adviser, will attend the meeting. Together they represent a 7 per cent stake in Dunlop's capital.

Professor Pritchard said: "It seems appropriate, we will stress our concern that the company has been talked down

for months. It has taken the BTR bid to reveal how false that was. We want to ensure that the owners of the company—the shareholders—are involved in the argument about the reconstruction of Dunlop."

"If it is a low-key meeting we don't want to create a disturbance though we may call for more information. We are going to support the board of Dunlop but we don't want to be sold off cheaply, either to Dunlop's banks and the institutions or to BTR."

Dunlop's shares rose 1p yesterday to 37p while BTR fell 3p to 66p.

One potential obstacle to the BTR bid was removed yesterday when Mr Norman Tebbit, Trade Secretary, decided against referring the bid to the Monopolies and Mergers Commission. This had not been seen as a serious small overlap in the two companies' activities.

In a separate move, the Dunlop board yesterday approved a programme to invest in four product areas which the company sees as having major growth potential. The company will spend £16m on expanding its Crimby-based operation making high pressure flexible pipe for use offshore; £5m on modernising its Coventry steel wheel plant and still-to-be-determined sums on medical products and on expanding production capacity for the Maxx000 tennis racket, endorsed by John McEnroe.

## Eurocom takes 10% in Geers Gross

Enrocom, a French advertising holding company, has agreed to pay £2.64m for a 10 per cent stake in Geers Gross, in a link-up intended to broaden the international client base of both groups.

The UK agency, subject to the approval of its own shareholders, plans to issue 1.55m new shares to Eurocom at 170p. Geers Gross shares jumped 16p on the London Stock Exchange yesterday to match this level.

Eurocom is to waive the voting rights on its Geers Gross shares. The rights will be assigned to Mr Robert Gross, chief executive and principal shareholder in Geers Gross, under a 10-year agreement.

Charles Moore, the Geers Gross chairman, said yesterday the retention of the voting power within the company had been a requirement of the deal.

Eurocom is really looking at this as a business partnership, and we did not want it to look like the basis of a future acquisition."

He said Geers Gross, which has substantial operations in the U.S. as well as the UK, had been seeking a way into the Continental European advertising market. Eurocom was the market leader there, but it has no position of any significance in our two major markets."

Geers Gross last year undertook a restructuring of its U.S. business, which had encountered setbacks since its initial few years of rapid growth.

Mr Moore said the U.S. division accounted for more than half group turnover, and Geers Gross was thus able to provide Eurocom with both a London and New York presence.

He added that Eurocom had important links with Havas, the French state-controlled advertising group, and offered a range of prestige clients such as Peugeot and Air France.

## Grand Met ups chief's pay

Grand Metropolitan paid £231,350 to its pension contributions in respect of a retiring director, the group's annual report discloses.

The group declined to identify the director or discuss the payment yesterday.

Mr Stanley Grinstead, the chairman, who was also the highest paid director, received an emolument of £14,984 including pension contributions, a rise of £33,146 on 1983.

Two other group employees received between £20,000 and £22,000, excluding pension contributions, although this was rather less than the £30,000 to £40,000 bracket that they were in last year. The sum is believed to be salary and commission to individuals linked to the group's casino operations.

Mr Grinstead, in his annual review, says: "I remain convinced that the group is moving at a high level during the second half of the year, although, as a mix of sales differed, it is not expected that the improved level of profitability in the last six months will be maintained. Confex did, however, successfully complete the contracts against which provisions were made in 1983."

The other associate, Exploration and Production Services (Holdings) (Expro) also made an increased contribution during the first six months of 1984, compared with £251,000.

Expro's sales during the first six months totalled £58.9m (1983) compared with £58.9m for the corresponding period in the previous year. Pre-tax profits for the period totalled £10.4m (1983) against £5.3m for the same period in the previous year.

During the first six months of 1984, Confex benefited from the delivery of a number of large orders to Brazil and the Middle East.

Confex's sales continued at a high level during the second half of the year, although, as a mix of sales differed, it is not expected that the improved level of profitability in the last six months will be maintained. Confex did, however, successfully complete the contracts against which provisions were made in 1983."

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## Hill Samuel receives £17m in restructure of Australian side

Hill Samuel, the London merchant bank, announced yesterday that it will receive £17m in cash under the restructuring plans that will turn its wholly-owned Australian subsidiary into a new licensed trading bank in which it will have a minority interest.

Under the deal, first announced last April, Hill Samuel Australia is to be replaced by Macquarie Bank, which the UK parent will have 9.9 per cent of voting shares. In addition it will subscribe for non-voting shares, bringing its holding to slightly less than 30 per cent of the total shares.

The group will exchange its investment in Hill Samuel Australia for share capital with an initial valuation of A\$25.9m and A\$24.2m in cash. At January 31, Hill Samuel Australia's net assets were A\$30m.

For the year to March 31, 1984, the profit from the Australian operations consolidated into Hill Samuel's results was £3.6m.

The restructuring comes against a background of sweeping changes in the Australian

financial services industry which is expected to lead to the creation of a number of new licensed trading banks.

A total of 80 per cent of Macquarie's voting shares will be held by 12 Australian financial institutions, and the bank will have shareholders' funds of A\$50m.

Hill Samuel said the cash received from the deal would supplement the free cash available to the group and its merchant banking subsidiary Hill Samuel and Co. The capital gain arising would be taken to Hill Samuel and Co.'s undisclosed reserves.

It was anticipated that the immediate impact on the disclosed net assets and earnings per share of the group would be immaterial. Hill Samuel said it believed the creation of the new bank would enable the group to take advantage of the opportunities offered by Australian deregulation while protecting itself from any erosion of the competitive position of unlicensed banking institutions in Australia.

## Associates boost Flextech profits to £2m midway

BOOSTED BY a near five jump in its company's contribution, taxable profits of Flextech, which specialises in the development of energy related businesses, expanded to £2.03m from £1.6m for the six months ended November 30, 1984.

The directors of this USM company say the substantial increase in the related share—up from £533,000 to £1,575m—was mainly attributed to Confex SA which lifted profits to £1.25m for the half year. This is against £1.13m, which was after exceptional provisions of £295,000.

The overall outlook for Flextech is encouraging, directors say. Besides the good progress being made by related companies, the number of investment opportunities actively under consideration has increased and negotiations in respect of some of these are at an advanced stage.

For the whole of last year pre-tax profits totalled £1.55m (£1.13m) which included royalties of £1,500,000 from associates.

Operating profits for the six months amounted to £462,000 (£253,000) which included royalties of £1,500,000 from associates.

Net profits were £1.18m (£433,000) after tax £249,000 (£333,000), giving earnings per 10p share of 6.54p, compared with 5.99p.

Confex's sales for the six months totalled £58.9m (1983) compared with £58.9m for the corresponding period in the previous year. Pre-tax profits for the period totalled £10.4m (1983) against £5.3m for the same period in the previous year.

During the first six months of 1984, Confex benefited from the delivery of a number of large orders to Brazil and the Middle East.

Confex's sales continued at a high level during the second half of the year, although, as a mix of sales differed, it is not expected that the improved level of profitability in the last six months will be maintained. Confex did, however, successfully complete the contracts against which provisions were made in 1983."

The other associate, Exploration and Production Services (Holdings) (Expro) also made an increased contribution during the first six months of 1984, compared with £251,000.

Expro's sales during the first six months totalled £58.9m (1983) compared with £58.9m for the corresponding period in the previous year. Pre-tax profits for the period totalled £10.4m (1983) against £5.3m for the same period in the previous year.

Expro's sales during the first six months totalled £58.9m (1983) compared with £58.9m for the corresponding period in the previous year. Pre-tax profits for the period totalled £10.4m (1983) against £5.3m for the same period in the previous year.

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## NOTICE OF EARLY REDEMPTION

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Notice is hereby given that in accordance with Clause 6(a) of the Terms and Conditions of the Notes, the Kingdom will redeem all of the outstanding Notes at their principal amount on 29th March, 1985, when interest on the Notes will cease to accrue.

Repayment of principal will be made upon presentation of the Notes with all unexpired Coupons attached, at the Offices of any one of the Paying Agents mentioned thereon. Accrued interest due 29th March, 1985 will be paid in the normal manner against presentation of Coupon No. 9, on or after 29th March, 1985.

Bankers Trust Company, London  
Fiscal Agent

8th February, 1985

## Osborne and Little for USM

BY STEFAN WAGSTYL

Osborne and Little, maker of wallpaper and furnishing fabrics for upmarket homes, is coming to the USM with a valuation of £3.45m.

Sir Peter Osborne, chairman and managing director, and his brother-in-law Mr Antony Little, design director, who together founded the company in 1967, say that by going public they hope to win greater public awareness of the kind enjoyed by the USM-quoted Michael Peters design group.

Stockbroker KJUK and Aitken is placing 1.6m shares, or 24 per cent of the equity, at 125p a share. Of these, 200,000 are new shares which are being offered to raise £195,000 net for the com-

pany.

Osborne and Little is forecasting pre-tax profits of not less than £738,000 for the year to the end of March, which on an estimated tax charge of 42 per cent, puts the shares on a prospective multiple of 19.8 times.

On a forecast net dividend of 2p, the yield at the placing price is 2.3 per cent.

The company grew slowly until 1981, when its fortunes were transformed following a decision to drop interior design work to concentrate on producing papers and fabrics. The company recovered from a £25,000 loss in the year to March 1981 on sales of £850,000 to pre-tax profits of £305,000 on sales of £2.1m last

year. In the first half of the current year the company made £241,000 pre-tax.

The company says design skills are the key to its growth. It is adding a range of bedlinen to its papers and furnishings this year, it is also building up a business in special commissions, among them one for Marks and Spencer.

Sir Peter and Mr Little will each retain just over 30 per cent of the equity after the placing. The company is planning to join the USM's list of paper millionaires. The only outside investor is Sir Peter's half-brother Mr Jim Aspinall, the estate operator and stockbroker, who backed the company with £1,000 in 1967. His 8.7 per cent stake is now worth £731,000.

## MINING NEWS

## Phelps-Dodge incurs heavy loss after asset write-downs

BY KENNETH MARSTON, MINING EDITOR

ANOTHER U.S. natural resource major to announce a heavy loss for the fourth quarter of 1984 is the copper-producing Phelps Dodge. The loss of \$317.6m (£196.3m), makes a total loss for the year of \$247.5m compared with a loss of \$85.5m in 1983.

As in the case of Asarco, the bulk of the fourth quarter loss at Phelps has been made up of asset write-downs which, as forecast by the company, amount to \$195m. They include \$110m in

charges for restructuring the company's continuing operations. These charges reflect the write-down of assets that are expected to be sold and of facilities made obsolete by economic reasons plus the costs of shutting down certain plants and smelting operations.

The \$85m balance of write-downs result from the decision to dispose of the Western Nevada subsidiary which has suffered from the termination of

a long-term uranium supply contract and from weak spot prices for uranium.

Basically, of course, Phelps' troubles stem from the weakness of copper prices which averaged \$2.20 a lb in 1984, compared with \$2.10 in 1983, and they are currently around the 1984 average. Phelps is thus concentrating its efforts on further reducing production costs.

The \$800,000 due on the pay-off-paid shares.

Central Kalgoorlie produced 1,832 ounces of gold in the fourth quarter of last year, according to the latest quarterly report.

The Zimbabwe Government's gold price support scheme has come to the aid of Falcon Mines, one of the country's leading producers, in the three months to the end of December last year.

Falcon produced a profit on mining operations of £22.1m (£12m), giving rise to net profits for the third quarter of the financial year to March 31 of £20.1m, which compares with £1.2m in the September quarter.

The brought net profits for the year to date to \$4.32m. Falcon made net profits of \$3.32m for the whole of the year to March 31, 1984.

The young Australian gold producer Central Kalgoorlie Gold Mines has moved to simplify its share structure through a capital reduction under which the present 50 cent shares will have a nominal value of 25 cents, and the 50 cent shares which are partly-paid to 20 cents will become 25 cent shares following a fall of 5 cents.

The directors of Central Kalgoorlie own more than 51 per cent of the company and will be paying some A\$800,000 (£281,000)

## MINING NEWS IN BRIEF

Australia's FAI Investments has been directed by the Victorian Corporate Affairs Commission to withdraw its proposed takeover announcement for Southern Goldfields and start again.

Southern Goldfields director says that this is because of a breach of the Takeover Code and they consider the announcement to have been opportunistic. They say that shareholders need not make any decision on the FAI offer until five weeks after any new takeover announcement is made by the latter.

Higher operating costs and the lower gold price in terms of the Canadian dollar have led to a reduction in full-year profits from Giant Yellowknife Mines, one of Canada's leading producers. Net profits for 1984 came out at C\$1.9m (£1.3m) or

44 cents a share, against 1983's C\$4.2m or 88 cents. Sales revenue were \$49.5m compared with \$32.7m.

Giant Yellowknife said that depreciation and amortisation charges for its Sabana gold mine in the Northwest Territories had also affected the results.

The young Australian gold producer Central Kalgoorlie Gold Mines has moved to simplify its share structure through a capital reduction under which the present 50 cent shares will have a nominal value of 25 cents, and the 50 cent shares which are partly-paid to 20 cents will become 25 cent shares following a fall of 5 cents.

The directors of Central Kalgoorlie own more than 51 per cent of the company and will be paying some A\$800,000 (£281,000)

## AARONSON BROS. PLC

Manufacturers and Distributors of Contiboard, Contiplas, Aroplas, Melinate and Spanboard board products, wood veneers, Armalex edging materials, Laconite wall boards, tiles and bathroom fittings and Aqua bathroom accessories.

### EXTRACTS FROM STATEMENT OF TRADING RESULTS YEAR ENDED 30TH SEPTEMBER, 1984 (Subject to Final Audit)

	1984 £'000	1983 £'000
Group turnover	89,390	80,351
Profit on ordinary activities before taxation	3,818	2,010
Profit on ordinary activities after taxation and minority interest	2,940	1,550
Profit for the year attributable to shareholders	2,414	1,197
Dividend per ordinary share of 10p each	4.2p	2.1p
Earnings per ordinary share of 10p each	10.37p	5.36p

The Board are pleased to report that whilst turnover improved by 11%, the profit on ordinary activities before taxation showed a 90% increase due to increased performance and operating efficiency.

The Board are recommending a final dividend of 3.0p per ordinary share (1983-1.2p) making a total for the year of 4.2p per ordinary share (1983-2.1p). Subject to confirmation at the Annual General Meeting this dividend will be paid on 11th April, 1985 to all ordinary shareholders on the register at the close of business on 7th March, 1985.

#### Future Prospects

The Group's Management accounts indicate an encouraging increase in turnover and profitability in the opening months of the current year and whilst the Board feel it is too early to forecast the results for the complete year, a satisfactory outcome is anticipated.

## IBM (UK)

The UK subsidiary of International Business Machines of the U.S., the world's largest computer company, increased its turnover by 40 per cent last year to £23.5m from £16.8m in 1983, according to provisional results.

Exports rose by 58 per cent to £1.15m from £745m. Much of the growth was due to sharply increased production of personal computers at IBM UK's plant in Greenwich, near Glasgow, though sales of other products are also said to have performed well.

Pre-tax profits increased less strongly than turnover, rising 27 per cent to £325m (£255m). The company said that in the UK sterling's fall against other European currencies reduced its margins.

The number of IBM employees in Britain rose by 1,380 to 17,504 last year. Sales capital investment in Britain was £148m against £148m in 1983.

## William Ransom

Improved pre-tax profits, up from £148,000 to £172,000, are reported by William Ransom and Son, manufacturing chemist, for the half-year to September 30, 1984. The interim dividend is raised from 1.5p to 1.65p net—last year's final was 9.5p from pre-tax profits of £377,557.

First half turnover was up from £1.7m to £2.06m. There was a tax charge of £77,000 (£74,000), and stated earnings per 10p share improved from 4.57p to 6.27p.

## BANK RETURN

	Wednesday February 6 1985	Increase (+) or Decrease (-) For week
Liabilities	£	£
Capital	14,583,000	—
Reserves	5,948,244,825	—
Bankers Deposits	948,534,050	—
Reserve and other Accounts	1,738,054,831	—
	6,547,844,825	—
Assets	£	£
Government Securities	681,679,505	—
Reserve and other Accounts	1,087,957,785	—
Reserve and other Accounts	948,534,050	—
Notes	5,630,564	—
Coin	900,548	—
	6,547,844,825	—

## BANKING DEPARTMENT

	£	£
Liabilities	£	£
Capital	14,583,000	—
Reserves	5,948,244,825	—
Bankers Deposits	948,534,050	—
Reserve and other Accounts	1,738,054,831	—
	6,547,844,825	—
Assets	£	£
Government Securities	681,679,505	—
Reserve and other Accounts	1,087,957,785	—
Reserve and other Accounts	948,534,050	—
Notes	5,630,564	—
Coin	900,548	—
	6,547,844,825	—

## ISSUE DEPARTMENT

	£	£
Liabilities	£	£
Capital	14,583,000	—
Reserves	5,948,244,825	—
Bankers Deposits	948,534,050	—
Reserve and other Accounts	1,738,054,831	—
	6,547,844,825	—
Assets	£	£
Government Securities	681,679,505	—
Reserve and other Accounts	1,087,957,785	—
Reserve and other Accounts	948,534,050	—
Notes	5,630,564	—
Coin	900,548	—
	6,547,844,825	—

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### Over-the-Counter Market

High	Low	Company	Price	Gross Yield	P/E	Fully
144	122	Ass. Brit. Ind. Ord.	150	8.6	4.9	9.4
151	135	Ass. Brit. Ind. CULS...	150	10.0	8.6	
77	51	Almington Group	139	5.4	12.1	
42	26	Armstrong & Rhodes	37	2.8	7.0	7.7
139	108	Bardon Hill	127	5.1		
68	42	Bray Technologies	48	3.5	7.3	9.6
201	170	CCL Ordinary	170	12.0	7.1	
112	110	C.I. Chemicals	110	15.0	10.0	
814	800	Carborundum Ord.	814	+2	5.7	0.7
103	43	Carborundum 7.5pc Pl.	438	10.7	12.4	
75	51	Deborah Services	60	-1	6.5	10.8
243	170	Frank Horst P.Gr.Ord	243	9.6	4.0	9.8
32	25	Frederick Parker	32	4.3	13.4	12.8
50	27	Ind. Precision Castings	28	2.7	8.6	7.3
124	104	James B. Ord.	104	15.0	10.0	
124	104	Jackson Group	104	4.7	4.7	4.8
280	211	James Burrough	280	12.9	14.3	9.8
86	83	James Parsons	86	5.0	5.8	8.8
86	71	John Howards and Co.	86	10.0	14.3	12.5
100	93	Johnston & Cartliffe	93	5.0	15.8	
100	93	Lingaphone 10.5pc Pl.	95	15.0	15.8	
802	300	Minihouse Holding N	300	5.0	43.5	47.6
81	73	Robert Brown	73	5.0	15.8	
80	78	Rod Scrutons "A"	81	5.8	16.3	3.8
105	100	Tendley & Cartliffe	100	5.0	15.8	
444	370	Trevan Holdings	370	4.3	1.2	20.7
217	172	Unilever Holdings	25	1.5	1.2	17.1
85	78	Water & Power	82	1.2	1.2	10.6
247	224	W. S. Yeatus	224	17.4	7.7	5.4



## UK COMPANY NEWS

## Kean &amp; Scott forecasts 82% rise in profits

By Alexander Nicoll

quoted home improvements subsidiary of the Hawley service industry group, yesterday forecast an 82 per cent increase in 1984 pre-tax profits to about £10m from £5.5m in 1983.

The company, headed by Mr Michael Ashcroft, the Hawley chairman, issued the forecast in a letter to shareholders explaining events since it acquired the troubled Mobern kitchen group last year.

Several Mobern subsidiaries, including Cold Shield, a double glazing company, the Walguard damp-treatment company and Mulberry Home Extensions, have gone out of business since the Kean & Scott purchase.



Mr Michael Ashcroft, Hawley chairman

It said yesterday that costs of restructuring Mobern have been substantial, but have been met out of the company's reserves.

Kean and Scott's financial position remains satisfactory, and trading at all its established divisions is up to expectations, it said.

The receiverships of Mobern subsidiaries aroused controversy because Kean and Scott said it was unable to finance their warranty agreements with customers.

Kean and Scott, 68 per cent owned by Hawley, had pre-tax profits of £4.13m in the first half of 1984 against £1.42m in the first half of 1983. It includes Sharps Bedroom Design, Dolphin Showers, Alpine Double Glazing and Kitchens Direct.

## Mid Wynd Intl.

Net asset value per 25p share at Mid Wynd Intl. investment trust was 173.1p at December 31 1984 compared with 146p at June 30 1984. The interim dividend is unchanged at 0.3p net, and earnings per share were down from 0.57p to 0.75p.

The directors say they are hoping to pay an increased final dividend of 1.1p.

Gross investment income was up from £140,273 to £146,700, and the amount available for ordinary shareholders was £37,747 against £48,744.

The company's results broadly mirror the performance of the markets in which it is invested. In the U.S., the company lagged the main index as the smaller companies in which it invests did not, in general, do as well as the larger ones.

Since December 31, the company has repaid the borrowing of £1m with which it was financed. The directors continue to believe that the dollar is over-valued and have now launched an option to sell \$1.5m.

## Burco Dean to sell Easthams

By Alexander Nicoll

Burco Dean announced plans yesterday to sell its loss-making kitchen division after a sharp rise in group losses for the year ended September 30 1984.

Easthams, a maker of flat-pack and fitted kitchen furniture, will be sold for about £3m to Magnet & Southern, the manufacturer of kitchen units and other home products. Burco, which recently received approval from the sale of its domestic appliance division, will eliminate group borrowings with the Easthams disposal.

The sale will substantially shrink the size of Burco Dean, which plans a name change shortly. Remaining activities will be the manufacture of non-ferrous garden furniture, equipment for testing moisture in the

ground, and plastic injection mouldings. In a full year, turnover of these businesses is estimated to total about £1m.

Group turnover rose in the year to last September from £17.9m to £18.7m, but pre-tax losses rose from £697,000 to £1.6m. The company is again omitting its final dividend after paying 0.1p at the interim stage to maintain trustee status.

There was an extraordinary loss of £1.65m (profit £747,000) from the reorganisation and sale of the appliance division to Glen Dimplex of Ireland. The loss transferable from reserves was £2.67m (profit £32,000), and this produced a deficit in the revenue reserve of £120,000.

Mr Michael Hunton, chairman,

said losses continued in the early part of the current financial year, but the remaining business is expected to be profitable in the rest of the year after the sale of Easthams and the elimination of interest on group borrowings.

Mr Julian Osborne, commercial director, said Easthams' market had been expanding in recent years, but that there had been intense competition from companies such as MFI.

Easthams already has a reorganisation under way, ending its manufacture of fitted kitchens and concentrating on flat-pack furniture for which kits are shipped un assembled to the customer or distributor. The changes will reduce the group's workforce from about 400 to 300,

and the sale of Easthams will cut it to about 190.

In the year to last September, Easthams accounted for about half of Burco Dean's turnover and had a loss before interest and tax of about £1.4m, of which £1.25m related to the fitted kitchen business which is being discontinued.

Easthams' net tangible assets at September 30 were about £3.5m.

Burco's biggest shareholder, with 28 per cent, is Charente Steamship, which also owns a shipping line as well as other investments. Mr Hunton, who took over as chairman last year, represents Charente.

Burco Dean shares rose 3p to 17p.

## Hillsdown sale pulls in well over £500m

THE OFFER for sale of 47m shares in Hillsdown Holdings, the large food manufacturing and processing business, attracted more than 100,000 applications for around 500m shares.

At the very least the issue drew £500m of investors' money because it was a tender the actual figure was much higher.

The advisers, Kleinwort Benson, have pitched the striking price at 145p, against the minimum of 100p, capitalising on the fact that the company's earnings, which include such famous names as Buxted Poultry and Daylay Eggs, at £274m.

At the striking price or above there were around 45,000 applications in respect of 250m shares. So even at that level the issue was oversubscribed 41 times.

After covering preferential forms from employees for 3.75m shares, applications for the remaining 43.25m shares have been accepted on the following basis. Those for up to 400 shares receive 100 and receive approximately 15 per cent of the amount applied for, up to a maximum of 250,000 shares.

As a result of the large number of applications it is now expected that Lloyds Bank's tender for 100,000 shares will be accepted, and the company will receive a further £100m from the sale.

Deals are expected to start on the following day.

Memory Computer, the troubled Dublin based computer manufacturer and distributor has completed its £1.25m, 3 for 1 rights issue. It issued 18,600m shares at 18 1/2p per share of which 51.5 per cent was taken up by shareholders, directors and the Industrial Credit Corporation, which underwrote the issue and took up the balance.

Memory's shares were suspended at 80p sterling in September and reinstated at 16p on the USM in January following shareholder approval for the rights issue. The balance was taken up after Touche Ross had refused to sign the preliminary results because they included two contracts for payments which had not been made. The profits forecast was subsequently revised from £181.58m to £187,000.

The offer for sale of 32.25m shares at 150p per share in Berkeley Technology has been oversubscribed.

Kleinwort Benson, the financial advisers, said that 600 institutional shareholders had been met in full. Applications were received for a further 25m shares from the public, compared with the 15m on offer. Details of the allocation of these shares will be published tomorrow.

Deals in the shares will start in the middle of next week.

Hobson shareholders side with board

The shareholders of Hobson, a Cheltenham-based maker of aluminium flat dies, have sided with the board in its dispute with Mr George Nicholson, the group's temporarily suspended managing director.

Mr Nicholson was suspended just before Christmas for two months on full pay for reasons which the group is not disclosing. He called an extraordinary general meeting, which gathered yesterday, to press unsuccessfully for the removal from the board of his fellow directors, Mr Rodney Barnett, the chairman, Mr David Stewart, the technical director, and Mr Patrick Brennan, a former finance director of the Hambros merchant banking group.

Mr Nicholson did not attend yesterday morning's meeting, where shareholders turned down his proposal.

## The start of something big

Charles Batchelor on Citicorp's plans to increase its involvement in the UK takeover scene

Citicorp's involvement in the £124m takeover bid launched on Tuesday by Extrat Investments for Tootal, the UK textile group, marks an important new step for the bank and highlights the growing involvement of U.S. banks in the British takeover scene.

U.S. banks have been expanding the scope of their London-based mergers and acquisitions activity over the past few years, but have usually restricted themselves to negotiating the sale of part of a company to another company.

They have steered clear of becoming involved in contested takeovers for fear of spoiling relations with their clients—a policy many also follow in the U.S.

That situation is about to change. Merrill Lynch has been advising on behalf of U.S. clients—two contested takeover bids for UK public companies in the recent past though on both occasions the bids were called off before launch day.

Mr Mahum Vaskewitch, managing director of Merrill in London said: "I am not surprised at Citicorp's involvement in the Tootal bid though I suspect it is linked to their financing of the deal. It is a continuation of a trend that is gaining momentum."

"In the two cases we were involved in we have not used a UK merchant bank as a partner. We felt we had sufficient expertise to do the deal entirely ourselves."

Entrat will not be the last deal of this kind.

"We intend to become a major force in investment banking in the UK and that means becoming a major force in public takeovers," said one bank official involved in the deal.

"There will be further public market activity this year both in issuing and takeover bids. This is merely the start of what will be a prominent 1985 for us."

The Entrat deal forms part of a concerted attempt by Citicorp to build up a wide-ranging merchant banking business in the UK. In November it became the first foreign bank to sponsor an issue of new shares—for the company's 100th anniversary—in the London market.

It became involved in the Entrat deal because of its longstanding relationship with Mr Arnold Bloch, Entrat's chairman, and the two

other prominent businessmen who are major shareholders, Mr Abraham Goldberg and Mr Marcus Bevan.

Citicorp said it was involved in the joint development of strategy with Warburg and in the joint drafting of documents. Warburg confirmed this close involvement but said that it (Warburg) was "leading the matter".

Some UK investment bankers have been dismissive of the U.S. involvement in London in the past saying it was not as large as the U.S. banks claimed.

A well-established player in the UK mergers world is Goldman Sachs, though significantly it has not yet advised a bidder in a contested bid.

It is currently advising Tootal on the U.S. aspects of its defence against the Entrat bid and over the past two years has also helped Sotheby's, the auctioneer, and Thomas Tiffin, the building company.

MR CONSULTANT Morgan Stanley in the conduct of its tactics in the Tootal offer, by the American bank's involvement was not as close as Citicorp's in the Entrat bid.

Mr Robert Conway, senior director of Goldman Sachs International, said: "The U.S. and UK banks can play a complementary role. One of the options in the takeover battle is to buy outside the UK or the strategy could involve a company's activities outside the UK."

Goldman Sachs has not yet advised in hostile takeover bids in the U.S. because the success rate was low, but the differing climate in the UK takeover scene might mean this would eventually happen in the UK, he said.

"In the UK context it could mean acting in a hostile deal, but we have not yet seen that. It is a new area in which we can be used."

## Greenall Whitley 'usefully ahead' in first quarter

Group profits of Greenall Whitley, a brewery, hotel, wine, spirits and soft drinks group, are usefully ahead for the first quarter compared with the same period last year. Mr. Greenall Whitley, chairman, told the annual meeting.

Outlining the group's hotel expansion programme, Mr. Hutton said: "Our plans for the rebuilding of the bombed Grand Hotel, Brighton, and well advanced and we expect to announce details within the next month or so."

He said the board was particularly pleased with the performance of its hotels.

The group has set the target of 100 per cent occupancy for the first quarter of the takeover last year, and throughout the year. Occupancy levels are just over 5 per cent ahead of last year.

On the group's main brewing business, Mr. Hutton said: "Trading was good over the Christmas and New Year holiday. But the continuing high level of unemployment and population drift in the North West prevents any real sustained upturn in beer sales in our traditional trading areas. In the East Midlands the prospects for Shilstone's brewery are more encouraging."

## Trade Promotions nearer target after deficit cut

Trade Promotions Services Group has reduced its taxable deficit from £223,000 to £208,000 for the first half to October 31 1984.

The interim period usually results in a loss for this organiser of trade fairs and exhibitions, and the directors reiterate the forecast made in last September's USM prospectus that the result for the full year will be in the region of £560,000.

The marked improvement in the first half reflects the success of the Autumn Gifts Fair, the only exhibition held in the period. The directors consider that this fair is capable of further expansion, to become an increasingly significant event in the international exhibition calendar.

Turnover for the period under review was £1.63m against £1.24m. The group has set the target of 100 per cent occupancy for the first quarter of the takeover last year, and throughout the year. Occupancy levels are just over 5 per cent ahead of last year.

There is to be a maiden interim dividend of 1.05p net per 10p share, again as forecast in the prospectus, which also projected a final dividend of 2.1p. Losses over the half year are stated at 4p (8.5p) before tax and 2.4p (4p) after. The respective figures for the last half year, when profits came to £50,000, were 10.1p and 6p.

The midway trading loss was £245,000, compared with £440,000 last time.

## Strong dollar underpins Abingworth assets

DESPITE difficult conditions, the overall performance of Abingworth's portfolio remained sound during the six months to December 31 1984.

At the end of the half-year net asset value per 10p share had risen to £3.60. This compares with £3.15 at end-December 1983 and £2.30 at June 30 1984.

In line with previous policy the company, which is principally engaged in venture capital investment, is not paying an interim dividend but says a final payment will be proposed in respect of the full year.

Net profits improved from £144,515 to £165,981 after taking account of a higher tax charge of £101,726, compared with £68,821. Earnings amounted to 0.8p (0.7p). Profits for the 1983-84 year totalled £285,233.

The period under review saw a continuation of the pattern of the previous half-year. In particular, the market for listed

technology stocks in the U.S. was weak.

Abingworth's major holdings held up well, however, and at December 31 the aggregate value of the group's three largest holdings amounted to £23.2m, representing 31.8 per cent of group net assets, compared with £21.2m and 33.1 per cent of group net assets a year earlier.

The sterling value of these and the other dollar-based investments in the portfolio was substantially enhanced by the strength of the dollar.

Over the six months, a total of \$6.1m was invested in ten new venture investments in the U.S. and two new investments were made in the UK at a cost of £470,000. A total of \$3.1m was added to existing investments in the U.S. and \$274,000 to investments in the UK.

A number of profitable realisations were made. In particular, Calibration Systems was taken

over and Abingworth's holding, which cost £83,300 when the investment was made in 1980, was sold for £302,300.

This compares with a valuation of £188,000 placed on the holding at June 30 1984. The sale of investments in Pennant Holdings and Gandalf Technologies realised gains of £382,100 and £132,400 respectively.

Although the flow of investment proposals to Abingworth continues with little abatement, there signs of fewer new companies are being formed at present.

The directors say many of the weaker companies will not be able to raise money and may, as a consequence, fail. They add that in this environment, there will also be numerous opportunities to invest in high quality situations on very attractive terms.

The prospects for these ventures should be "excellent" and

in due course Abingworth would expect them to come to the public market at substantially enhanced valuations.

Since December 31, the market for listed technology companies in America in particular has shown some improvement and if this trend continues, should have a beneficial effect.

Total income for the half year advanced from £88,289 to £638,355. Dividends and interest received fell to £401,368 (£467,643) but other income moved ahead to £196,915 (£116,945) and profits less losses of the dealing subsidiary improved to £99,494 (£1,701).

Administration expenses were little changed at £370,647 (£372,853).

Abingworth obtained a full listing for its shares in May 1983. It is principally involved in the high technology area and some 83 per cent of its portfolio is made up of U.S. stocks.

## Aaronson optimistic as half-way profits surge

Aaronson Bros, manufacturer of chipboard and associated products, continued its recent improvement in the year to end September 1984 with the pre-tax margin improving from 2.5 to 4.3 per cent.

Taxable profits increased by 90 per cent from £2,01m to £3,85m, but are still slightly below the £4m peak reached in 1979. In 1981 the group's profits fell to £343,000.

The final dividend this time is lifted from 1.5p to 3p, making a total of 4.5p. Earnings per 10p share were almost doubled at 10.37p against 5.36p.

With turnover ahead by £9.04m to £89.38m, profits at the operating level jumped from £3.69m to £5.07m. The directors say that in the opening months of the current year the accounts indicate an encouraging increase in turnover and profitability, and they are anticipating a satisfactory outcome for the year.

As part of its policy of improving operating efficiency, the group closed its distribution depot in Northern Ireland during the year. Reorganisation and redundancy expenses involved are included in £326,000 extraordinary debits this time (£353,000).

The pre-tax figure was struck after interest charges, which took £1.8m (£1.98m), while interest received was £1.3m, up on an increased £555,000 (£298,000).

Last time there was a £1,000 loss from its associate.

The tax charge was doubled at £681,000 (£342,000) and minority interests took a higher £217,000 (£138,000).

## comment

Aaronson is breathing easier again after its 1981 dip into losses. Then, the company had just expanded its capacity but the market for chipboard-based products suddenly became far more competitive when, with sterling at a relatively elevated level, foreign manufacturers flooded in. A continued overseas presence has kept prices down but volume is starting to pick up, again as the pound has dropped, giving an edge to locally-produced products again.

Aaronson is also seeing some benefits from its recent rationalisation of capacity and distribution outlets. While the conveyor belts may be starting to hum again, a direct spin-off from the slump in sterling must inject a note of caution into the current year's flying start.

Aaronson's products are DIY orientated and are also used in kitchen furniture—markets which are highly sensitive to spending habits dictated by a significant degree by interest rates. Given a fair wind around £5m pre-tax looks possible which, on a 25 per cent tax charge, puts the 94p shares, up 13p, on a prospective P/E of just 7.

## Unilever agrees sale of lossmaker MacFisheries

By Gordon Crane

Unilever has agreed the sale of MacFisheries, its loss-making fish processing subsidiary, to the privately owned Clipper Seafoods of Aberdeen.

Terms of the deal were not disclosed by Unilever, but Dr Francis Clark, managing director of Clipper, indicated a purchase price of "several millions".

MacFisheries, based in Fraserburgh, was founded in 1918 by the then Lord Leverhulme as an outlet for the local fish catch. It built up a countrywide network of High Street fishmongers which reached a peak of some 400 shops by the 1960s.

These began to lose ground to the big retailers and the network and the distribution side ended with the sale of the MacFisheries stores to BAT Industries in 1979.

The MacFisheries name was eventually sold into the International Stores group, now owned by Dea Corporation.

MacFisheries has continued as a significant supplier to national food retailers such as Sainsbury and Waitrose, and sells its fish fingers, fish cakes and fillets

under its own and other brands. Annual turnover is some £18m to £19m, but it has been incurring trading losses for some years. In October 1983 its second processing plant, at Grimsby, was closed.

MacFisheries is Unilever's only UK fish processing operation, although it has a Marine Harvest breeding farm, also in Scotland. Unilever said yesterday the interests of MacFisheries would be better served under an owner already involved in that business.

Clipper, a supplier to Marks & Spencer and Tesco among others, has no brands of its own. It said it saw the acquisition as a natural extension of its own activities.

Discussions are under way with trade unions representing the 600 MacFisheries employees, but Dr Clark said no closures were planned.

"We would like to make it as efficient as Clipper, and that just means a lot of hard work and good management."

## Profits double to £1.26m at Leisuretime Intl.

Pre-tax profits of Leisuretime International, an hotel and holiday concern, have more than doubled from £588,000 to £1.26m for the year ended October 31 1984.

The company, which traditionally incurs costs during the winter months made a first half loss of £138,000 but a second half profit of £1.12m.

The forthcoming year should see a further improvement in the company's trading position. Pre-tax profits were struck after net interest payable of £88,000 compared with £75,000 interest receivable for 1983 on turnover down from £7.9m to £8.03m.

The final dividend is 1.1p (0.9p) for a total of 2.1p (1.5p) per 10p ordinary share. Earnings per share increased from 6.5p to 9.75p after a tax charge of £397,000 (£68,000).

There was an extraordinary debit of £154,000, which Mr Timothy Aitken, the chairman, says that after the acquisition of Repose Hotels at end of 1983, the group's Channel Islands activities have been reorganised and rationalised into a single operating division.

Repose produced excellent results for 1984 and reservations for the current year are encouraging.

The group's Channel Islands tour subsidiary, Preston Travel, improved margins significantly.

The board believes that Preston's operations have been placed on a firm footing. Results for this year should show a further material improvement.

A decision was taken to sell the Old Swan Hotel, Harrogate, for £2.25m. The operating profit, up from £888,000 to £1.35m, includes a item raised from revaluation reserve on this disposal.

Directors expect that the new conference hotel built in the town will lead to greater competition and that considerable capital expenditure would have been required to bring the Old Swan up to full conference standard without necessarily a proper resultant increase in profitability.

## comment

Behind these encouraging first figures lies Leisuretime's pick-up of the Old Swan, its old flagship, lies the question of future ownership. Will this Timothy Aitken-run company, over the past few months David Kirck's Jersey-based property group, Channel Hotels, has built up a stake of 25 per cent. For Kirck, who has been casting around for a fully quoted public company into which he can jettison his UK property interests, Leisuretime is an obvious candidate, if not because of its allied interests then its modest size. At the end of the day, though, value for money is always a critical factor and these latest figures will almost certainly add a premium to the price tag. With behind-the-scenes talks currently underway, it remains to be seen whether Mr Kirck has to look elsewhere for his public vehicle. At 82p, up 3p, Leisuretime's market capitalisation is £5.5m.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div. year	Total last year	Total year
Aaronson Bros	3.5	April 11	1.2	4.2	2.1
ASR Higgs	int.	March 15	—	—	7.25p
Burco Dean	Nil	—	0.1	—	0.1
Geode Derrant	1.25	March 26	1.25	1.25	1.25
Independent News	8	—	7	12	11
Leisuretime Intl.	1.1	April 10	0.9	2.1	1.8
Mid Wynd Intl.	int.	April 9	1.5	—	7.5
Wm Ransom	1.65	April 25	—	—	1.6
Trade Promotions Int	1.05	—	—	—	—

Dividends shown pence per share net except where otherwise stated.  
\* Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ US\$ stock.  
§ Unquoted stock. † For 15 months. ‡ Irish currency throughout.

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## THE PROPERTY MARKET BY MICHAEL CASSELL

## Mounting doubts in the land of blockbuster deals

COUNTLESS ACRES of empty space, indifferent rental growth, mounting tax uncertainties and the prospect of an end to economic expansion provide powerful arguments for giving U.S. real estate investment a miss in 1985: the signs are that domestic and foreign investors will not be so easily sidetracked.

Despite the problems confronting the world's biggest, boldest, property investment market, the indications are that its principal players will be keeping their eyes fixed firmly on the future, preferring to overlook the pitfalls and potholes immediately in front of them and seeking to maintain the spending momentum of 1984.

Last year appears to have seen more \$100m-plus real estate transactions in the U.S. than took place in the previous decade; short-term uncertainties or not there are few who believe 1985 will see a significantly lower level of activity.

Once upon a time, the sale of the Pan Am or General Motors building had brokers buzzing from Fifth Avenue to Tigris Street. This week's \$400m Manhattan land purchase by the Rockefeller family was spectacular enough and reminiscent of the days when giants like Helmsley and Zuckendorf set the pace.

But although individuals like Gerald Blum and Trammell Crow still make a big mark on U.S. real estate, the market is increasingly dominated by cash-rich pension funds and

insurance groups, revitalised savings and loans associations and big spending syndicators. Blockbuster deals are becoming commonplace.

The scale of the market in which private and public investors play is almost incalculable. A recent estimate put the value of standing real estate investments at \$1.3 trillion (million million). The number of participants is equally daunting: an estimated 500,000 brokers chase clients and commissions; there are 110,000 active developers and no fewer than 30,000 financial institutions with real estate links.

Few of them would deny that, three years into the strongest economic recovery since the last world war, the going may soon get tougher. But just as many would insist that, with the high cash yields and total returns available, real estate will continue to take some beating as an investment medium.

Much of the concern over the outlook for real estate centres inevitably on prospects for the U.S. economy, given the continuing budget deficit, the consequent threat of still-higher interest rates and the chances of an economic slow-down turning into recession. But there are more specific reasons for some of the worries.

In many major cities, for example, downtown office markets are awash with unwanted space and new supplies of accommodation are still pouring

through the pipeline. Coldwell Banker, the nationwide real estate brokers, predict a continuing oversupply as another 35m sq ft of accommodation hits downtown markets this year.

The latest Coldwell Banker survey, taken at the end of 1984, shows average downtown vacancy rates standing at a new peak of just under 15 per cent and still rising. An 18 per cent average in the suburbs is also set to increase further with new construction completions running at twice the 1984 level. As a result, the brokers—who also report the first uptick in industrial vacancies since September 1983—believe most rents are unlikely to show any significant growth until at least mid-1986.

Richard Ellis, which has six offices in the U.S., shares the same view about rents and adds: "A growing number of funds and qualified real estate investment managers are expressing concern at the level of development activity, pricing and yields now prevailing. Unquestionably, an excessive supply of space is developing in some of the first tier markets and many of the second tier markets. The current rate of development cannot be maintained, at least on a healthy footing, without some backwash."

Even so, Ellis manages a touch of American-style confidence and says it expects the gradual introduction of further zoning, planning and environmental regulations to help

restrict the supply of space, raise values and further enhance the attractions of real estate investment.

Away from the marketplace, the agents see other clouds on the immediate horizon: "One of the principal negative influences on the strength of the real estate market will be the further prospective changes in the treatment of property from a taxation standpoint. The scope and depth of these changes will undoubtedly be influenced by the attitude of Congress towards further cuts in the Federal Budget."

Coldwell Banker tends to agree and accepts that tax changes will have a moderating effect on tax-sensitive syndicators, partnerships and joint ventures. It seems to have few doubts, however, that the investment markets will soon adjust accordingly and that activity—particularly by the pension funds—will again accelerate.

The scope for further exposure to real estate by American institutions is immense. The average level of investment in property assets by U.S. pension funds stands at around 4 per cent, and most have made clear their intention to raise the figure to as much as 15 per cent over the next decade—an increasingly likely prospect if diminishing tax benefits reduce levels of private real estate ownership.

Some estimates suggest that the institutions' determination to raise their real estate profile,

together with their conversion from a passive lending role to one of equity participation and management, could release up to \$800bn of new capital into the investment market over the next decade.

They will not have the market to themselves. Last year, public syndicators pushed a record \$80bn into real estate, a figure which is likely to have been multiplied four times over by private investment syndicates.

Neither is anyone underestimating the importance of foreign investors and the impact they will have on future investment markets. Most estimates put the recent flow of overseas funds into U.S. real estate at between \$2.5bn and \$3bn but one man who has taken a long close look at this part of the market expects something much more dramatic.

Mahlon Appar, a Washington-based investment adviser, reckons it will take more than an indestructible dollar to stop the inflow of overseas money. "I would not be at all surprised to see \$7bn or \$8bn of foreign investment funds finding their way into U.S. property this year and next."

"Many American investors feel that foreign buyers overpay for properties but that often reflects the longer investment time frames they are used to dealing in. Instead of the seven to 10 year investments favoured by Americans, overseas buyers will view their purchases as 20-year proposi-

tions. As a result, they will pay slightly more and accept lower initial returns, which can still look good against what is on offer in their home markets.

"Investors from countries whose currencies have fared particularly badly against the dollar will no doubt think carefully before they buy but I see nothing stopping them from investing increasingly heavily. The Japanese, for example, have taken a long time to do their homework but the level of investment in U.S. real estate is set to triple by 1988."

Appar, with the help of Jones Lang Wootton, has produced a report for the Urban Land Institute which estimates total foreign investment in U.S. real estate reached just under \$50bn in the five years up to and including 1983.

According to Appar: "There is a myth that the influx of foreign money is driven by the big institutions. In reality the situation is much more pluralistic and private individuals remain very important."

"The U.S. real estate investment market is equally fragmented but it is going to become much more professional and institutionalised. We have developed sophisticated systems of financial analysis for what is a deal-oriented market but the industry remains highly localised and almost primitive in its organisation and structure. The arrival of overseas investors will help change all that."

## Planning kick-off at Stamford Bridge

MARLER ESTATES has won outline planning consent for proposals to redevelop Stamford Bridge, the home of Chelsea Football Club.

Hammermith and Fulham council has approved the plans, submitted by S.E. Property—in which Marler has a 70 per cent shareholding—to build luxury flats, houses and about 16,000 sq ft of high-tech office space on the 11-acre site. It is understood there is an outline agreement to protect the offices to the London Enterprise Property Company, a private sector-Greater London Enterprise Board joint venture.

The project is likely to cost about £10m and could have a completed development value of £25m-£30m. Chelsea's lease on the ground ends in 1999 and Marler has to find the club a suitable, alternative site within a 15 miles radius. An early start to the project seems unlikely.

● Eagle Star Properties has won planning permission to demolish Malvern House, a 20-year-old office building on the northern end of Southwark Bridge in the City of London, and to develop 167,700 sq ft of office space, together with residential, showroom and car parking.

The Eagle Star has been negotiating a new, long lease from the City Corporation.

● Friends Provident and Watney City of London Properties are paying £67.5m for the freehold of Winchester House, Old Broad St, City of London. The 225,000 sq ft building stands on a one-acre site on the corner of London Wall and has an annual rental income of £3.5m. Friends Provident, which will be the majority partner with Watney, plans a phased refurbishment programme.

● Lilliput Property Unit Trust has paid just over £2m for eight period offices in the centre of Tunbridge Wells. Lilliput will refurbish the buildings which currently yield 5.25 per cent. Tunstill acted for Crest Estates, the vendors, while Granville Property Services acted with Baring, Houston & Saunders for Lilliput.

● Hill Samuel Property Management, acting on behalf of its in-house unit trust, has paid about £1.2m for the freehold of four shops in Graham Street, Aldridge, reflecting an initial yield of 5.5 per cent. Michael Laurie advised Hill Samuel and Webster acted for House of Fraser, who developed the shops.

● The volume of vacant industrial floorspace in England and Wales had fallen from an April 1983 peak of 177m sq ft to 143m sq ft by December, 1984, according to King and Co.

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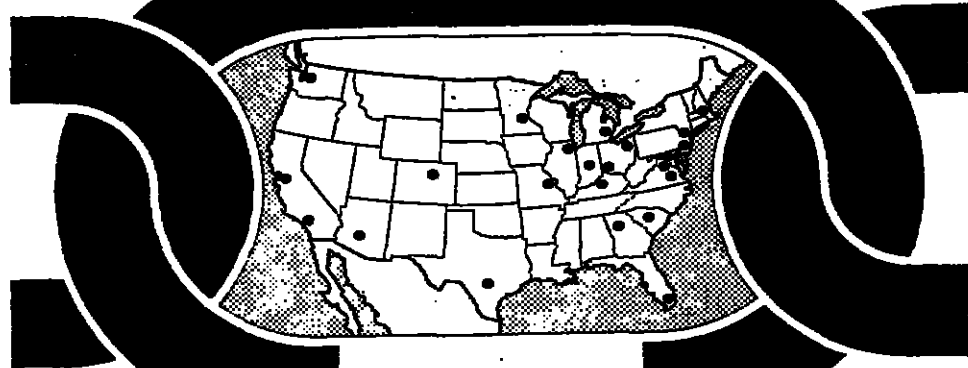
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New issues flood becomes  
a trickle as  
buyers retreat, Page 38

# SECTION III - INTERNATIONAL MARKETS

## FINANCIAL TIMES

Friday February 8 1985

### WALL STREET

## Reagan finds a ready response

THE OPTIMISTIC note of President Ronald Reagan's State of the Union address to Congress found a ready response on Wall Street yesterday, where the stock market surged towards new peaks in another session of heavy trading, writes Terry Byland in New York.

Although gains in blue chips were cut back at mid-session as the bond market weakened on reports of poor retail demand at the auction of 30-year Treasury securities, the closing minutes of the session saw stocks gaining ground again. Across the broader range of the market, buying support remained strong, and both the NYSE composite and the Standard & Poor's 500 index moved up again.

The Dow Jones industrial average made a couple of attempts to challenge last week's all-time peak of 1,292.62 but was thwarted by the caution in the bond market. At the close the Dow was 8.49 points up at 1,290.08. Turnover increased to a total of 152.6m shares, the highest for a week.

Strong gains in airline issues pushed the Dow transportation average ahead once again. The Detroit car makers rebounded strongly from recent weakness.

A strong lead for the industrial share sectors came from IBM, \$1 1/4 up at \$138 1/2, with Control Data \$1 1/4 up at \$38 1/2 and NCR \$ 3/4 higher at \$30 1/2.

But the NYSE active list was topped by insurance stocks which ran into sellers as the results season opened. Aetna Life & Casualty dipped \$ 1/2 to \$41 1/4 and Cigna \$ 1/4 to \$41. However, Travelers Corp added \$ 1/4 to \$42 1/2 after the trading announcement.

On the American Stock Exchange, a 2m block of ADRs in Imperial Group contributed to total turnover of more than 3m ADRs of the UK tobacco group. On Wednesday, 6m ADRs in BAT, the other major UK tobacco company, changed hands.

Heavy trading in Phillips Petroleum continued after the board had rejected Mr Carl Icahn's \$55-a-share proposal and said it would accept any friendly offer of \$62. At \$50, Phillips dipped \$ 1/4.

Unocal, also very busy again, gained \$1 1/4 to \$47 1/4 as speculators waited for a move by Mr T. Boone Pickens. Other oil stocks were generally firmer, with Schlumberger, the oil services group, \$ 1/4 up at \$40 1/2 on results. McDermott, at \$29, shed \$1 despite higher third-quarter profits. Tesoro Petroleum at \$11 made no response to first-quarter results.

Stock in Manville, the asbestos company, gained \$ 1/4 to \$8 after the latest boardroom statement.

Chemicals firmed after Allied opened the results season, gaining \$ 1/4 to \$39 1/2 on the trading figures.

Retail traders looked weak as further evidence of poor Christmas trading reached Wall Street. Heavy selling of K mart, the discount store, followed the board's warning of a final quarter below

expectations and sent the stock plunging \$2 1/2 to \$37 1/2.

But Sears steadied after the selling which greeted the results, adding \$ 1/2 to \$35 1/2. Nabisco Brands eased \$ 1/4 to \$53 1/2 despite an increased dividend.

Food retailers were generally steady, however, and Safeway Stores held unchanged at \$28 1/2 on news of higher earnings.

The bond market opened well but began to fall back at mid-session when traders caught the whisper of a very poor retail reception at the day's auction of \$5.75bn in 30-year bonds - an important test of the outlook for yields. Losses ranged to around 1/2 point at the long end.

The news from the auction was the more disconcerting because the first two legs of the Treasury \$15bn refunding programme - three-year notes were sold on Tuesday and 10-years on Wednesday - had met reasonable support.

Money market rates moved higher as federal funds moved up to 8 1/4 per cent re-awakening nervousness about federal reserve credit policies.

### LONDON

## Institutions spark rally in gilts

GOVERNMENT securities assumed full control of London stock markets yesterday as heavy inflows of overseas and domestic institutional cash swept quotations higher. Demand was directed at longer-dated gilts, some of which rose 1 1/2 points, but all maturities displayed strength despite substantial sales by the authorities.

Investors were unperturbed by the obstacle of high levels of UK interest rates, and demand continued throughout official market hours into the late trade. Sterling's slow improvement against a dollar still strong against other leading currencies motivated buying, leading to hopes that the revived foreign interest could mark a turnaround in the U.S. currency's fortunes. American funds led the onslaught on gilts.

A steady improvement in equities resulted in a number of impressive gains. Associated Newspapers finished 50p stronger at 790p while Bata rose 22p to 510p. In recently active shares, Burton added 9p to 451p, and House of Fraser ended 10p up at 330p.

Scattered falls included Applied Computer, 15p down at 217p, and Thorn EMI, 10p cheaper at 450p.

The FT Ordinary index, unchanged in the morning, gradually improved to close 5.9 higher at the session's highest level of 989.2.

Chief price changes, Page 30; Details, Page 31; Share information service, Pages 32-33

### AUSTRALIA

STEADY interest in high technology and takeover situation stocks provided a further stimulus to Sydney trading that took the All-Ordinaries index 0.2 higher to 777.9.

The confidence displayed in the mining sector proved short-lived largely due to lower London metal prices although gold miners experienced a firmer session.

Industrials were generally higher while the decline among resources issues did not embrace oil and gas shares.

Vapour in the high-technology sector was again featured with a 60-cent gain to AS\$30 while security services group Wormald International briefly touched a high of AS\$3.55 on takeover speculation. It finished a net 5 cents ahead at AS\$3.40.

Lifescavers, for which Nestlé is offering AS\$3.30 a share, gained a further 2 cents to AS\$3.58 on high turnover.

### SOUTH AFRICA

THE SURGE of the rand against the dollar and other leading currencies undermined Johannesburg gold shares.

Among the blue-chip mines favoured by overseas investors Randfontein fell R4 to R174 while Vaal Reef was knocked down R4.50 to R171.

The non-gold mining market was supported by selective local buying although De Beers, the diamond group, fell 22 cents to R8.60 on heavy volume. In platinum, Impala eased 20 cents to R23.40, and Rustenburg was 25 cents off at R16.75 by the close.

Industrials were quietly mixed although Barlow Rand slipped 15 cents to R9.85.

### CANADA

MODEST GAINS were made in Toronto as oil, transport and gold shares improved.

Dome Petroleum, which completed its debt restructuring earlier this week, added 10 cents to C\$2.85. Texaco Canada dropped C\$1 to C\$34 1/2 after it disclosed that its parent plans to sell up to 12m shares in the Canadian subsidiary.

Chevron was steady at C\$18 1/2 after announcing its 60 per cent interest in Gulf Canada was up for sale to Canadian-controlled companies until the end of April.

Industrials were one of the few weak spots in Montreal as banks and utilities made steady progress.

### EUROPE

## Foreigners hold key to advance

STRONG foreign demand for European shares provided the keystone for further advances in most centres, with records again being set in the Netherlands, Switzerland, France, Italy, Austria and Norway.

Purchase orders, particularly from the U.S., underpinned a Frankfurt advance which took the Commerzbank index 18.5 higher to 1,165.7.

Siemens was again sought in continued reaction to its higher first-quarter profits and rights issue. The stock added DM 13 to DM 546 - a rise of DM 34 over the past two trading sessions.

Recently-favoured IWKA picked up DM 11.50 to DM 300, after Wednesday's DM 6.50, as speculative buying revived. Nixdorf added a further DM 4 to DM 538 in continued reaction to 1984 results.

SEL closed DM 15.50 higher at DM 350 as it signed a joint venture agreement with Italy's state-owned Ristrutturazione Elettronica to produce video cassette recorders.

In a mixed motor sector, Daimler rose DM 5.50 to DM 633, and Porsche firmed DM 12 to DM 1,085 after Wednesday's dividend announcement.

AEG-Telefunken added DM 3.90 to a record DM 118 as it announced a DM 150m investment on two production facilities in West Berlin.

A firm banking sector saw Deutsche Bank up DM 4.90 to DM 404.90 and Com-

merzbank DM 2 firmer at DM 170.

Dresdner added DM 3 to DM 190.70.

Bond prices were little changed in dull trading with interest rate worries again inhibiting turnover. The Bundesbank sold a small DM 6.2m of paper, reflecting the low turnover, after sales totalling DM 37.3m the previous day.

The pace of advances slowed in Amsterdam, but the ANP-CBS General index put on 0.9 to another record of 199.4.

Heavy U.S. demand for Royal Dutch enabled the share to recoup an early 30-cent loss and end a net 20 cents higher at FI 196.20.

KLM traded little changed from its overnight levels early in the day but fell back to close 20 cents lower at FI 49.40, ex-scrip, despite the announcement of its first third-quarter profit for 10 years.

Copier maker Océ van der Grinten rose FI 3 to FI 310: it announced details of its improved fiscal 1984 results.

Bonds eased in moderate trading as the market failed to absorb continued foreign and domestic selling.

Active institutional and foreign buying contributed to another advance in Zurich which took the Swiss Bank Industrial index up 2.1 to a peak of 416.70.

Oerlikon-Bührle posted a sharp SwFr 65 advance to SwFr 1,470 - for a two-day rise of SwFr 100 - in continued reaction to Tuesday's announcement that the company expects to break even in 1984.

Swiss Volksbank was unchanged at SwFr 1,480 as it announced higher 1984 profits and the board proposed an increased dividend.

Bonds were barely steady with federal bonds marked sharply lower after sales by a major bank.

Brussels ended mixed in quiet trading. Petrofina came in for some profit-taking and eased BFr 20 to BFr 7,180, while retailer Delhaize maintained Wednesday's BFr 400 surge, ending unchanged at BFr 6,700.

Steels were higher with Arbed BFr 10 higher at BFr 1,690 in continued reaction to its preliminary 1984 earnings.

Paris was again ahead with the Indicateur de Tendance up 0.9 at a peak 198.2.

Lesieur, the food group, dipped FFr 10 to FFr 875 as it received authorisation from the Spanish Government to raise its stake in Spain's largest edible oils company, Kofop. However, Lesieur is still unable to go ahead with a takeover of the second largest concern, Carbonell.

BSN, the dairy, foods and glass group, was unchanged at FFr 2,370: it announced a provisional 12 per cent rise in 1984 consolidated sales.

Milan continued its advance, and the Banca Commerciale index rose 2 to a record 270.90 despite continued efforts by the bourse authorities to slow the rise.

Montedison led industrials higher, adding L32 to L1,515. Fiat rose L6 to L2,485, but Olivetti slipped L5 to L4,485.

Among holding companies, La Centrale shed L128 to L2,720 amid reports that the medium-term credit institute, IMI, may sell its stake in Nuovo Banco Ambrosiano, which owns Centrale.

### TOKYO

## China-linked issues offer diversion

PERSISTENT buying interest in some biotechnology and incentive-backed issues enabled shares to continue their rise in Tokyo yesterday, writes Shigeo Nishitani of Jiji Press.

But some investors, increasingly concerned that prices might collapse in reaction to the recent sharp upswing, turned their attention to stocks of companies with links to China.

The Nikkei-Dow market average gained 73.63 to 11,940.80. Volume decreased slightly from Wednesday's 402m shares to 395m. Advances outpaced declines by 407 to 306, with 180 issues unchanged.

Biotechnology-related issues remained popular. Mitsubishi Chemical topped the most active list with 17.09m shares changing hands and rose Y8 to Y416. Yamanouchi Pharmaceutical gained Y140 at one stage but came under profit-taking pressure later to finish only Y20 higher at Y4,070.

Among incentive-backed issues, Osaka Transformer added Y30 to Y615, Mitsubishi Steel Y20 to Y325, Nippon Denko Y30 to Y1,550 and Koito Manufacturing Y26 to Y596.

China-related stocks came to the forefront. Aoki Construction, third most active, jumped Y63 to Y795 and Kumagai Gumi Y38 to Y618, buoyed by its reported plans to build hotels in China. Iino Katun also advanced Y15 to Y580.

Blue chips were actively traded, with Nippon Columbia adding Y110 to Y1,460 and Sony Y40 to Y4,130. Matsushita Electric Industrial advanced Y40 to Y1,570 and Fuji Photo Film Y30 to Y1,790.

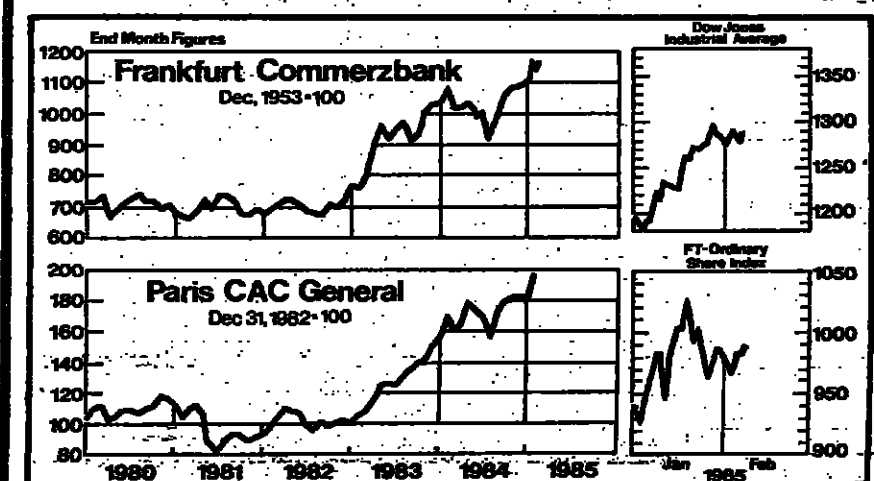
Brisk demand for semiconductor elements pushed Nippon Gakki up by Y100 to Y2,190. Ikegami Tsushinki leaped Y80 to Y2,650, bolstered by its TV broadcasting equipment exports to China.

Some financial stocks were steady on small-lot buying. Sumitomo Bank gained Y40 to Y1,850 and Sumitomo Marine and Fire Y20 to Y570.

Bond prices fell in response to the yen's further fall below Y280 to the dollar in Tokyo. Although some securities companies moved to sell, institutional investors stayed on the sidelines.

The yield on the benchmark 7.3 per cent government bonds, maturing in December 1993, rose sharply to 6.760 per cent, from Wednesday's 6.660 per cent.

### KEY MARKET MONITORS



STOCK MARKET INDICES				
	Feb 7	Previous	Year ago	
NEW YORK				
DJ Industrials	1,288.21	1,280.59	1,180.49	
DJ Transport	624.87	617.14	528.72	
DJ Utilities	150.54	149.98	130.97	
S&P Composite	181.79	180.43	158.74	
LONDON				
FT Ord	989.2	983.3	801.3	
FT-SE 100	1,290.08	1,280.59	1,021.7	
FT-A All-share	102.6	101.42	481.28	
FT-A 500	676.58	676.37	513.95	
FT Gold mines	487.1	487.8	596.3	
FT-A Long gilt	10.69	10.85	10.21	
TOKYO				
Nikkei-Dow	11,940.80	11,867.17	10,080.80	
Tokyo SE	922.94	918.93	789.40	
AUSTRALIA				
All Ord.	778.1	777.9	762.1	
Metals & Mins.	448.8	448.8	538.2	
AUSTRIA				
Crash Aktien	62.26	62.21	55.33	
BELGIUM				
Belgian SE	2,155.71	2,152.66	-	
CANADA				
Toronto				
Metals & Mins	2,187.9	2,179.2	2,209.0	
Composite	2,620.6	2,614.5	2,411.4	
Montreal				
Portfolio	127.61	132.21	118.12	
DENMARK				
Copenhagen SE	171.83	171.36	219.73	
FRANCE				
CAC Gen	198.2	197.3	163.7	
Ind. Tendance	108.5	107.9	87.6	
WEST GERMANY				
FAZ-Aktien	400.83	395.09	358.55	
Commerzbank	1,164.7	1,147.2	1,082.4	
HONG KONG				
Hang Seng	1,812.43	1,833.31	1,085.4	
ITALY				
Banca Com.	270.90	268.90	219.95	
NETHERLANDS				
ANP-CBS Gen	198.4	198.5	162.2	
ANP-CBS Ind	158.2	157.2	138.2	
NORWAY				
Ose SE	338.88	334.86	237.49	
SINGAPORE				
Straits Times	815.81	812.99	1,082.15	
SOUTH AFRICA				
Gold	n/a	929.4	887.3	
Industrials	n/a	862.8	988.4	
SPAIN				
Madrid SE	112.75	115.29	77.75	
SWEDEN				
J.P.	1,471.30	1,485.25	1,573.37	
SWITZERLAND				
Swiss Bank Ind	416.7	414.8	364.4	
WORLD				
Capital Int'l	Feb 6	Prev	Year ago	
	195.8	195.8	181.5	
GOLD (per ounce)				
	Feb 7	Prev		
London	\$302.00	\$303.00		
Zurich	\$301.85	\$303.35		
Paris (franc)	\$303.34	\$303.28		
Luxembourg	\$302.55	\$303.45		
New York (Feb)	\$299.40	\$302.20		

\* Latest available figure.

This announcement appears as a matter of record only



**RAUMA-REPOLA**

**US\$ 66,534,000**  
**Multicurrency**  
**Loan Facility**

Arranged by

**KANSALLIS-OSAKE-PANKKI**

Agent

**Kansallis Overseas Bank Limited**



## NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

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**Continued on Page 30**

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Sales figures are unaffected. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range is extended to show the new stock price. Dividends are otherwise noted, rates of dividends are annual distributions based on the latest declaration.

a—dividend also extra(s). b—annual rate of dividend plus stock dividend. c—liquidating dividend. dtd—called. e—new issue listed. f—dividend declared or paid in preceding 12 months. g—dividend in Canadian funds, subject to 15% non-resident tax. h—dividend declared after split-up or stock dividend. i—dividend paid this year, omitted, deferred, or no action taken at latest date. j—dividend declared, b—dividend declared or paid this year, an accumulative issue with dividends in arrears. k—new issue in the past 52 weeks. The high-low range begins with the start of trading. l—dividend declared, b—dividend declared or paid this year. m—dividend or paid in preceding 12 months, plus stock dividend. n—stock split. Dividends begin with date of split. o—sales. p—dividend paid in stock in preceding 12 months, estimated with other stock prices. q—dividend declared, w—dividend in high trading halted. w—in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such company. x—dividends. y—dividend or no rights. ztd—no distribution. —no dividends. —no dividends and sales in last, ytd—last, z—sales in full.



MARKET R

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EQUITY & SUB-S	
Firms in parentheses stock price	
1	CAPITAL GOOD
2	Building Materials
3	Chemurco, Corp.
4	Danmork (15)
5	Electrobra (36)
6	Electrobra Eng.
7	Ensa e Seta (16)
8	Mano (18)
9	Miner Industrial
10	CONSUMER GP
11	Bevco and Oes
12	Food Marketing
13	Food Recycling (1)
14	Heater and House
15	Imbra (23)
16	Managem and Pub
17	Shops (19)
18	Teles (19)
19	UTER GROUP
20	Chemicals (17)
21	Other Extravene
22	Shops and Trs
23	Telecomunicat
24	Telebrasil (16)
25	INDUSTRIAL GP
26	GRUP
27	IRON MINING
28	FINANCIAL GP
29	Imbra (6)
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## NEW YORK STOCK EXCHANGE CLOSING PRICES

**every Monday in the Financial Times**



## MARKET REPORT

## Gilt-edged stocks surge higher on heavy inflows of domestic and overseas cash

## Account Dealing Dates

First Declared Last Account  
Dealing Date  
Jan 22 Feb 7 Feb 8 Feb 15  
Feb 22 Feb 23 Feb 24 Feb 28  
Feb 29 Mar 7 Mar 8 Mar 15  
\* New-time\* dealings may take  
place from 9.30 am to 2.30 pm on  
business days.

## Government

securities assumed full control of London stock markets yesterday as heavy inflows of overseas and domestic institutional cash swept quotations higher. Demand was directed at longer-dated Gilts, some of which rose 11 points, but all maturities displayed strength despite substantial sales by the authorities.

The recently-created £200m tranche of Treasury 10 1/2 per cent 1989 was exhausted at 85 1/2 and the remainder of the Treasury 12 per cent 1985 went at 100 1/2. The Government broker advised that the £150m issue of Treasury 10 1/2 per cent linked 2003, at 98 1/2, and supplies of the specialist low-coupon Exchequer 2 1/2 per cent 1987, at 86 1/2, before withdrawing to await a higher bid.

Investors were unimpressed by the obstacle of high levels of UK interest rates and demand continued to be official market hours into the late afternoon. Buying was spurred by sterling's slow improvement as well as strong support from overseas funds. American funds led the overseas charge on Gilts yesterday.

The ultra-long Exchequer 12 per cent 2017 reached 115 1/2 in the afternoon. The 10 1/2 per cent net gain of 1 1/2 points, while other long-dated maturities were restrained by current rates for credit and closed around 1 1/2 higher. While similar improvements were scored by index-linked issues.

Wall Street's lacklustre performance over the last two days for early caution in the equity sector. Most leading shares hovered either side of Wednesday's closing prices, before following the Gilt-edged market's upsurge. Some individual features developed but the sector in general was overshadowed by the events elsewhere.

Little "new-time" interest for the trading Account starting on Monday was reported and only a light demand was aroused by New York's recovery, more for a two-day gain of 10 to 20 points after 274, now that the proposed merger with Charterhouse Japhet is not to be confirmed. RBS is scheduled to go ex-div.

## RBS up again

Trade in the banking sector was at a fairly low ebb, Royal Bank of Scotland rose 4 more for a two-day gain of 10 to 20 points after 274, now that the proposed merger with Charterhouse Japhet is not to be confirmed. RBS is scheduled to go ex-div.

rights issue on Monday. Elsewhere, the announcement that Charterhouse J. Rothchild was selling 25 per cent stake in stockbroking concern Kite and Aitken to Orion Royal Bank. Lifted CTR to 110p before a close of 109p, up 4 on balance. Goode Durrant and Murray's share price rose 2 1/2 to 32p.

Brokers returned to favour and displayed some noteworthy gains. Grand Metropolitan advanced to 310p before following the encouraging tenor of the chairman's review, which added sentiment throughout the sector.

Secondly issues continued to provide the noteworthy movement in Building Societies. The ordinary and "A" shareline 14 pence to 140p and 138p respectively on "new time" buying ahead of the annual results expected shortly. March 1st, also reporting soon, firmed 4 to 280p, while USM-quoted Access Satellite, which recently revealed good interim figures, rose the same amount to 204p.

ICI, a strong market recently on buying ahead of the preliminary results due at the end of the month, closed a shade easier at 86p, and picked up to 87 1/2p on a combination of domestic and American demand.

Leading Retailers responded to steady demand and displayed good gains across the board. Woolworth, on asset value considerations, moved with a gain of 28 pence to 615p, while Green's advanced 17 to 713p. Improvements of 9 and 10 respectively were seen in Burton, 48 1/2p, and House of Fraser, 33 1/2p.

British Home, to 25 1/2p, the latter being helped by a broker's recommendation. Profit-taking in the absence of the rumoured bid from Harcourt's brought Debenhams back to 210p, but speculative buying soon resumed and the price settled at a net penny dearer at 211 1/2p. Secondary issues, featuring Body Shop, to 60p, at 60p, at the annual

## FINANCIAL TIMES STOCK INDICES

	Feb. 7	Feb. 8	Feb. 9	Feb. 10	Feb. 11	Jan. 31	Year ago
Government Secs.	80.84	79.63	78.67	79.37	79.87	80.06	82.37
Fixed Interest	83.85	83.61	83.50	83.10	83.44	83.78	87.15
Ordinary	989.2	983.5	989.4	988.3	977.5	988.1	901.3
Govt. Div. Yield	4.27	4.27	4.27	4.27	4.27	4.27	4.27
Earnings, Vici (Full)	10.80	10.80	10.80	10.80	10.80	10.80	10.80
P/E Ratio (Vici)	11.03	11.00	10.98	10.77	10.87	10.97	12.88
Total Bargains (Est.)	24,900	23,713	24,406	24,708	25,356	26,498	23,513
Equity turnover (M)	579.18	378.94	266.24	296.90	286.51	284.73	
Equity bargains	31,388	20,980	20,778	19,736	21,406	20,088	
Share-traded (M)	182.3	190.3	189.8	148.8	179.8	187.0	

10 am 983.3, 11 am 987.8, Noon 988.1, 1 pm 987.8.

Basic 100 Govt. Secs. 15/1/28. Fixed Int. 1928. Ordinary 1/7/25.

Gold Mines 12/9/55. SE Activity 1974.

Latest Index 91-246, 9028.

Nil-10.58.

## HIGHS AND LOWS S.E. ACTIVITY

	1984/85	High	Low	High	Low	Daily	Year
Govt. Secs.	80.77	78.72	187.4	49.18	140.4	104.6	
Fixed Int.	87.48	80.42	150.4	50.85	158.0	125.2	
Ordinary	1014.7	78.5	1094.5	42.5	154.1	157.7	
Gold Mines	712.1	435.5	724.7	48.4	135.1	136.3	

(10/84) (10/85) (10/86) (10/87)

report, while Dixons jumped 37 to 533p. Combined English Stores rose 7 to 39p, Harris Queensway 6 to 193p and John Menzies 7 at 237p. In contrast, VWV were marked down 30 to 145p, on the late news that a bid discussions with an unnamed concern had been terminated. Among Shoes, Style rose 8 to 178p following renewed speculative buying.

Leading Electricals showed little sign of shaking off the recent depression. British Telecom managed a gain of a penny to 125p, but Racal continued to drift lower and closed 4 down at 104p. Thorn EMI, which had bid discussions with an unnamed concern, moved ahead to 473p before reacting sharply to close 10 lower on balance at 460p. Telephones, to 25 1/2p, the latter being helped by a broker's recommendation.

Profit-taking in the absence of the rumoured bid from Harcourt's brought Debenhams back to 210p, but speculative buying soon resumed and the price settled at a net penny dearer at 211 1/2p. Secondary issues, featuring Body Shop, to 60p, at 60p, at the annual

Abroad attracted speculative interest and touched 25 1/2p before profit-taking left the close 1/4p cheaper on balance at 23 1/2p. Horizon Travel firmed 4 to 132p as bid rumours lingered. Elsewhere, Leisuretime International closed 4 higher at 59p, after 62p, following the annual results.

Persistent buying of Jaguar was aroused by talk that a broker was recommending purchases of the shares up to the 400p level and the price ended 17 higher at a 1984-85 peak of 322p.

A Press report that Associated Newspapers was considering floating off its North Sea oil subsidiary, Blackfords Oil, induced further demand for AN, which jumped 50 to 790p. Daily Mail rose 11 points to 215 and International Thomson appreciated 15 to 610p, both in sympathy. Among Paper/Printings, Geers Gross gained 16 to 170p, on the news that the company had secured a 10 per cent stake in the company.

Trade Promotions added 4 to 84p following the reduced deficit and accompanying encouraging remarks about second-half prospects.

Significant movements in Properties were few, but Stock Corporation gained 7 to 430p, on a report that a sizeable stake may have changed hands. Further consideration of the Churchill Hotel leasing deal helped Peaschey firm 3 to 248p.

Selective buying of Textiles left David Dixon 10 up at 162p and Dawson International 8 to the good at 290p. Ben Brothers, helped by a call option activity, jumped 17 to 180p, while Milling Morris rose 4 more to 63p and the "A" 3 further to 61p. Courtaulds put on 3 to 147p.

Northampton Manufacturing declined 6 to 240p on small selling ahead of Monday's preliminary results.

Falco Resources reacted to the oil market's recovery from the domestic currency, continued to under the market, matter another encouraging showing against the U.S. dollar. As on Wednesday, this effectively inhibited Johannesburg selling and led dealers in London to mark Gold share prices higher across the board.

Thereafter, sporadic selling of top-quality stocks by Swiss sources prompted London offer.

ings which were easily absorbed and the FT Gold Mines index posted its third consecutive rise to close 5 1/2 up at 497 1/2.

Bullion failed to provide a definite lead, closing \$1 lower at \$302 an ounce.

Among Heavyweight Golds, Randfontein improved 21 more to \$221, while Vaal Reef, \$221, Western Deep, \$205, and Kloof, \$231, all showed gains to over a point. Smaller-priced issues had Grandstrand 42 better at 638p and Ekangra 20 dearer at 725p.

The gold/antimony producer Consolidated Murchison rose 50 to 500p.

South African Financials also made progress across a broad front. Greener were outstanding and advanced 11 to £113 on the efforts of a single Continental buyer, while scattered support was evident for "Johannesburg" at 280, and Transvaal Consolidated Land, a point better at 271.

New Wits, which revealed sharply higher first-half earnings earlier, rose 10 to 450p, while fresh speculative demand lifted Rand 7 to 39p. De Beers revived and advanced 13 to 181p. Golds also turned easier.

London-based Financials featured renewed enthusiasm for RTZ which, helped by the recent buoyancy of the copper price, attracted substantial traded option turnover and in a lively business, touched 674p before settling below the best bid still 12 better on the day at 657p.

In sharp contrast, Down-under issues lacked confidence reflecting renewed pressure on the Australian dollar. Double-figure losses were common to CBA, 362p, Peke-Wallend, 288p, and Western Mining, 232p, while MIMS dipped 8 at 181p. Golds also turned easier.

Substantial increased demand for Traded Options resulted in 13,115 contracts being struck — well above levels prevailing earlier in the week. Much of the day's excitement centred on Imperial Group which recorded 4,433 calls with 1,946 done in the February 180's, 8 up at the February 250's, 7 at the February 300's, 1 at the February 350's, 1 at the February 400's, 1 at the February 450's, 1 at the February 500's, 1 at the February 550's, 1 at the February 600's, 1 at the February 650's, 1 at the February 700's, 1 at the February 750's, 1 at the February 800's, 1 at the February 850's, 1 at the February 900's, 1 at the February 950's, 1 at the February 1,000's, 1 at the February 1,050's, 1 at the February 1,100's, 1 at the February 1,150's, 1 at the February 1,200's, 1 at the February 1,250's, 1 at the February 1,300's, 1 at the February 1,350's, 1 at the February 1,400's, 1 at the February 1,450's, 1 at the February 1,500's, 1 at the February 1,550's, 1 at the February 1,600's, 1 at the February 1,650's, 1 at the February 1,700's, 1 at the February 1,750's, 1 at the February 1,800's, 1 at the February 1,850's, 1 at the 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Midland Bank Tr. Corp. (Jersey) Ltd.		Stonhew Management Limited	
26 St. John St., New York, N.Y. 10038		PO Box 313, St. Helier, Jersey	
0534 724248		0534-70155	
Minerals, Oil & Gas, Sh. F. Inc.		Supremacy (Jersey) Ltd.	
PO Box 194, St. Helier, Jersey		4 Hill St., Douglas, Isle of Man	
0534 224441		0534-294441	
Samuel Montagu Ltd. Agents		TSE Trust Funds (C.I.)	
114, Old Broad St., E.C.2		20 Hill St., Douglas, Isle of Man	
0534 724248		0534 724248	
Merrill Lynch, Pierce, Fenner & Smith Inc.		TSE Trust Funds (C.I.)	
120 Wall St., New York, N.Y. 10038		20 Hill St., Douglas, Isle of Man	
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Merrill Lynch, Pierce, Fenner & Smith Inc.		TSE Trust Funds (C.I.)	
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120 Wall St., New York, N.Y. 10038		20 Hill St., Douglas, Isle	



## COMMODITIES AND AGRICULTURE

## Alcoa shuts Jamaica bauxite refinery

THE ALUMINUM COMPANY of America (Alcoa) is closing its bauxite refinery in central Jamaica because of a local glut of alumina. The move has shocked Jamaica, the world's third largest bauxite producer, which depends on the industry for two-thirds of its exports.

The 800,000 tonne per year refinery will cease production in the fortnight and be mothballed in July with 800 workers made redundant. The move comes a year after Alcoa spent U.S.\$14m on refitting.

The company has complained in the past that costs at its Jamaican refinery were the highest of all its plants worldwide.

Mr Hugh Hart, Jamaica's mining minister, said the decision would cost the island's economy U.S.\$38m per year in hard currency earnings and \$125m (U.S.\$23m) in government revenue.

Alcoa is the second U.S. major to pull out of Jamaica in less than a year. It follows the termination of mining and shipping of ore by the Reynolds metals company.

Alcoa says it hopes the Jamaica closure is temporary, but local industry sources say the plant will be reopened only if the company can find a partner for a joint venture or if it is taken over by the Jamaican government.

Reynolds, France and Alcoa have been mentioned as possible partners in a joint venture, but it is not clear if Alcoa has yet approached them.

The Jamaican industry is also threatened by doubts over the future of its largest refinery, a 1.2m tonne per year facility owned by Reynolds, Kaiser and Atlantic Richfield.

Atlantic Richfield is divesting its assets in minerals, but there have been no takers for the company's share of the Jamaican plant. The other two partners are thought to be carrying on by themselves, with no replacement for Atlantic Richfield.

## European farm unions split over price cuts

BY IVO DAWNAY

EUROPEAN farm unions are divided over how to react to the EEC Commission's austerity farm price proposals. More than a week after the plans are announced, the unions' confederation, has still to agree on a response.

The row centres on whether the Commission's proposal to cut the price of wheat by 5 per cent is an objective method of assessing the rate of price rises. This attempt to judge the appropriate level of increase in relation to farm incomes, input costs and national wage rises.

This year, Copia called for a rise of 4 to 5 per cent—below the 7.8 per cent figure, dictated by this formula, the first time it has done so. This has been attacked as a tactical error by unions from Italy, Greece and Ireland.

Several farm organisations from northern Europe have backed the move, however. They say a reduced claim was necessary given the Community's severe budgetary difficulties.

The issue was further confused by a request from Mr Frans Andriessen, the new farm commissioner, for Copia's opinion on reform of the Common Agricultural Policy.

Many farm unions believe that Copia should contribute to the debate, launched by the commissioner last week, so that farmers' voices are heard. Others say Copia should make clear its categorical opposition to any reform that puts farmers' incomes below market forces and budgetary constraints in the list of Community priorities.

## New Caledonia plans to raise nickel production

BY JOHN EDWARDS, COMMODITIES EDITOR

LE NICKEL is planning to increase nickel output in New Caledonia in spite of the sabotage that forced the closure of the Thio mines there in November.

The government Service des Mines said it aimed to raise production in 1985 to 45,000 tonnes from 34,500 tonnes last year. Reuter reports from Noumea.

To make up for the loss of production at the Thio mines, Le Nickel has boosted output at its other major mine and stepped up purchases of ore from independent miners.

Nickel values dropped sharply on the London Metal Exchange yesterday following the news. Cash nickel fell 27.5 to \$4,400 a tonne with the strongest trend in sterling encouraging selling. Copper lost ground for the

second day running after reaching a five-year peak on Tuesday. Higher grade cash copper closed \$9 lower at \$1,250.5 a tonne in the face of persistent selling.

In Paris the intergovernmental Council of Copper Exporting Countries (Copeco) marketing policy committee met yesterday to discuss ways of co-ordinating market intervention measures by member countries.

A fall in the value of the dollar by at least 10 per cent should strengthen commodity markets this year according to an annual review by brokers Rudolf Wolff.

It says the weaker dollar, combined with sustained global economic growth and the low levels of stocks of many industrial commodities, will lead to higher prices.

## London futures volume falls in January

By Our Commodities Editor

TURNOVER on the London commodity futures market fell in January, according to figures issued by the International Commodities Clearing House yesterday. Total lots traded dropped to 361,983 compared with 428,625 in January 1984.

Cocoa remained the leading commodity with a turnover of 125,148 lots in January, but this was well down compared with 188,015 traded in the same month a year ago.

Gas oil was the second biggest individual contract, recording its highest ever January volume of 74,244 (52,711) lots. On the International Petroleum Exchange, total turnover since the market started in April 1981 yesterday passed the 2m mark.

Meanwhile, trading volume on the London International Financial Futures Exchange (Liffe) moved strongly ahead in January to 323,918 lots against 137,340 last year.

● FRENCH cocoa grindings rose 1.8 per cent in the third quarter of last year to 10,070 tonnes from 10,570 tonnes in 1983, the Chocolate Manufacturers' Association said. Grindings in the first nine months of 1984 were 37,475 tonnes, up 6.4 per cent from the 35,905 tonnes in 1983.

● UK WHEAT exports in the first 26 days of January totalled 174,742 tonnes and barley exports 148,281 tonnes. This brought wheat exports since the season started on August 1 to 1,124,378 tonnes, a sharp increase on the 763,540 last season.

● THAILAND'S Cane and Sugar Corporation has postponed until after June delivery of 50,000 tonnes of raw sugar to three international trade houses. A corporation official said the delay of the shipments, originally scheduled for March/May, could provide his company with higher revenue if the world fund price in the second half of the year.

Nancy Dunne on President Reagan's plans to cut subsidies  
U.S. farmers fear a weeding out

THE REAGAN Administration might have bowed this week to Congressional pressure for emergency credit assistance to heavily indebted farmers, but it is sticking to its proposals for big spending cuts in the 1985 Farm Bill.

Mr John Block, the Agriculture Secretary, regards a shake-out of inefficient producers as inevitable. He will propose, among other things, lower loan rates, phasing out subsidies and an end to paid acreage set-aside programmes.

Mid-western legislators, who oppose most of the cuts, paint a bleak picture of U.S. agriculture should Congress agree to these proposals.

Senator Gary Hart of Colorado said: "We will have an agriculture of who will win it. What we have here is an unannounced policy of revolutionising agriculture. It would wipe out many of the 2.4m family farmers and turn their land over to large corporations."

Mr Don Shoup, a Missouri farmer's wife, spoke to senators on Capitol Hill last week. She told them that if Congress did not help the ailing farm economy "we are going to see one of the worst things in history we ever thought of happen."

Economists in the U.S. Agriculture Department see trouble in the short term if farm supports end. Eventually, however, they expect agriculture to emerge stronger than ever.

A recent report on the Possible economic consequences of eliminating price and income supports produced by the department's economic research service, weighs the consequences of a free market, export-oriented policy.

Production would drop drastically and as many as 30m acres of marginal land could be taken out of production, it says. Farmers would then use less fertiliser, fuel and machinery.

The value of farm assets and farmer equity could decline more sharply than income, possibly reversing in one to three years the gains of the 1970s.

Land values could fall sharply initially, reflecting their reduced earning capacity, so that a farmer who financed his operations based on assets would have serious problems.

Many of the less efficient and most highly indebted operators would be forced into liquidation.

On the plus side, the report says prices would fall and demand for farm products could rise 25 per cent. Livestock producers could get cheaper feed.

The decision to operate without price supports would signal U.S. unwillingness to continue to support world prices through stock adjustments, and would show its intent to become more price competitive.

Although industries supplying farms would experience an initial decline and then slower growth, the transportation, processing and marketing industries would benefit from the increase in marketing likely with lower commodity prices.

Farm support costs would decline, reducing the budget deficit which could help lower interest rates and the value of the dollar.

After five years without support, the report concludes, agriculture would be significantly smaller and have lower costs. The farm sector would have a more difficult time emerging from a stronger position to compete with other sectors in the economy for resources and with other exporters internationally.

This view, however, has several possible weaknesses. It assumes that farm income will be replaced by other sources of income, such as off-farm work, and that the farm sector will be able to survive in the long run.

It fails to deal with the problem of what happens to the fortunes of which are tied to their earnings. The once-solid farm credit system, which is owned by and lends to commercial banks, is already in trouble. It reported 11 failures in 1983, and one of its district banks is in deep trouble.

Of nearly 8,000 banks in the independent Bankers Association of America, more than half have more than 50 per cent of their loans in farm-related loans. One bank's economy said its difficulties would reach crisis proportions if land prices collapse. Should the administration fail to prevent a sharp decline in farm prices, the institutions which serve the sector may not survive to finance the industry of the 1990s.

It also fails to consider the possibility of a sharp decline in the value of the dollar, which would increase the cost of foreign currency. This would be a major problem for the farm sector, which is heavily dependent on exports.

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## LONDON MARKETS

EARLY GAINS on the cocoa futures market were mostly erased later in the day. The May position reached \$2,254 a tonne at one stage but finished the day only \$150 up on balance at \$2,231 a tonne.

Dealers attributed the early rise to speculative buying backed by trade interest. The gains were not followed through, however.

Coffee futures prices moved a few pence lower at the opening, reflecting the overnight tone in New York, and eased further during the day. The May position closed \$11.50 down at \$2,382.50 a tonne. Dealers said chart patterns for coffee had been affected by the failure of the May position to sustain its breakthrough. \$2,400 a tonne barrier earlier in the week.

## COPPER

AMALGAMATED Metal Trading reported that in the morning cash high grade traded at \$1,250.50, three months \$1,250.50, 12 months \$1,250.50, 18 months \$1,250.50, 24 months \$1,250.50, 30 months \$1,250.50, 36 months \$1,250.50, 42 months \$1,250.50, 48 months \$1,250.50, 54 months \$1,250.50, 60 months \$1,250.50, 66 months \$1,250.50, 72 months \$1,250.50, 78 months \$1,250.50, 84 months \$1,250.50, 90 months \$1,250.50, 96 months \$1,250.50, 102 months \$1,250.50, 108 months \$1,250.50, 114 months \$1,250.50, 120 months \$1,250.50, 126 months \$1,250.50, 132 months \$1,250.50, 138 months \$1,250.50, 144 months \$1,250.50, 150 months \$1,250.50, 156 months \$1,250.50, 162 months \$1,250.50, 168 months \$1,250.50, 174 months \$1,250.50, 180 months \$1,250.50, 186 months \$1,250.50, 192 months \$1,250.50, 198 months \$1,250.50, 204 months \$1,250.50, 210 months \$1,250.50, 216 months \$1,250.50, 222 months \$1,250.50, 228 months \$1,250.50, 234 months \$1,250.50, 240 months \$1,250.50, 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## CURRENCIES, MONEY and CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar continues to advance

The dollar touched further records on the foreign exchanges yesterday, without any sign of major intervention by central banks. The U.S. currency continues to be backed by good commercial demand, but speculation is also increasing as the comments made at the recent meeting in Washington about central bank intervention have an increasingly hollow ring.

The market is convinced that U.S. interest rates will rise as economic growth remains strong and the Reagan Administration finances further very large budget deficits through borrowing, rather than raising taxes. In spite of the recent amount of U.S. Treasury funding taking place this week, the auctions up until last night had been considered successful, although there was some apprehension ahead of the sale of 30-year bonds.

The dollar rose to a 13-year peak against the D-mark, closing near the day's high at DM 3.2450 compared with DM 3.2215 on Wednesday. It also advanced to a record FF 9.9025 from FF 9.8375, and to SwFr 2.76 from SwFr 2.7370 and Z260.65 from Z250.45.

On Bank of England figures

the dollar's index climbed to a record 149.2 from 148.7. **STERLING** — Trading range against the dollar in 1984-85, 1.9940 to 1.1105, January average 1.1374. Exchange rate index rose to 72.0 from 71.5, compared with 78.5 six months ago. It opened at 71.5, the lowest level of the day, and rose steadily to close at 72.0.

Sterling opened little changed against the dollar, but soon gained about 1 cent and remained around that level all day, showing a slight gain against other major currencies, as the ERM block, Swiss franc and Japanese yen weakened in terms of the dollar. The high level of London interest rates and a fall in the market underpinned the pound, which closed 25 points up against

the dollar at \$1.100-1.110, and also advanced to DM 3.6255 from DM 3.59; SwFr 3.0825 from SwFr 3.05; and Y261 from Y259. **D-MARK** — Trading range against the dollar in 1984-85, 3.2450 to 2.5355, January average 3.1698. Exchange rate index 118.7 against 122.2 six months ago.

The D-mark continued to fall sharply against the dollar in quite hectic late trading. The U.S. currency rose to DM 3.2365 at the Frankfurt close, and touched a peak of DM 3.2205, the highest since January 13, 1972, when it was fixed at DM 3.2497 under the system of fixed parities. On Wednesday it finished at DM 3.2205. A level of DM 3.2320 was regarded as an

important resistance point for the dollar to break through, with general demand for the U.S. unit underpinned by fresh commercial buying. Trading was in a narrow range for most of the day, before the opening of New York took the dollar higher. No intervention by the Bundesbank was detected on the open market, but the German central bank bought \$162m when the dollar was fixed at DM 3.2275, compared with DM 3.2250. Sterling was stronger, rising to DM 3.5800 from DM 3.5500 at the fixing.

STERLING EXCHANGE RATE INDEX			
(Bank of England)			
	Feb 7	Previous	
£100 =	71.5	71.4	
9.00 am	71.5	71.4	
10.00 am	71.5	71.4	
11.00 am	71.5	71.4	
Neon	71.7	71.4	
1.00 pm	71.5	71.4	
2.00 pm	71.5	71.4	
3.00 pm	71.5	71.4	
4.00 pm	72.0	71.5	

\$ in New York			
	February 7	Previous	
2 spot	\$1.105-1.110	\$1.105-1.110	
1 month	\$1.105-1.110	\$1.105-1.110	
3 months	\$1.105-1.110	\$1.105-1.110	
6 months	\$1.105-1.110	\$1.105-1.110	
1 year	\$1.105-1.110	\$1.105-1.110	
Forward premiums and discounts apply to the U.S. dollar.			

EMS EUROPEAN CURRENCY UNIT RATES					
	Unit	Feb 7	Previous	% change	% change
				from Feb 7	from Jan 1
Belgium Franc	100	36.36	36.36	0.00	0.00
Dutch Guilder	100	36.36	36.36	0.00	0.00
French Franc	100	6.55	6.55	0.00	0.00
German Mark	100	3.36	3.36	0.00	0.00
Italian Lira	100	2036	2036	0.00	0.00
Portuguese Escudo	100	200.48	200.48	0.00	0.00
Spanish Peseta	100	166.64	166.64	0.00	0.00
Swiss Franc	100	2.00	2.00	0.00	0.00
UK Pound	100	7.46	7.46	0.00	0.00

Pound Spot-Forward Against Pound					
	Feb 7	Previous	One month	% change	% change
				from Feb 7	from Jan 1
U.S.	1.105-1.110	1.105-1.110	1.105-1.110	0.00	0.00
Canada	1.495-1.500	1.495-1.500	1.495-1.500	0.00	0.00
France	6.55	6.55	6.55	0.00	0.00
Germany	3.36	3.36	3.36	0.00	0.00
Italy	2036	2036	2036	0.00	0.00
Japan	236	236	236	0.00	0.00
Netherlands	36.36	36.36	36.36	0.00	0.00
Portugal	200.48	200.48	200.48	0.00	0.00
Spain	166.64	166.64	166.64	0.00	0.00
Sweden	10.36	10.36	10.36	0.00	0.00
Switzerland	2.00	2.00	2.00	0.00	0.00
UK	7.46	7.46	7.46	0.00	0.00

Dollar Spot-Forward Against Dollar					
	Feb 7	Previous	One month	% change	% change
				from Feb 7	from Jan 1
U.S.	1.105-1.110	1.105-1.110	1.105-1.110	0.00	0.00
Canada	1.495-1.500	1.495-1.500	1.495-1.500	0.00	0.00
France	6.55	6.55	6.55	0.00	0.00
Germany	3.36	3.36	3.36	0.00	0.00
Italy	2036	2036	2036	0.00	0.00
Japan	236	236	236	0.00	0.00
Netherlands	36.36	36.36	36.36	0.00	0.00
Portugal	200.48	200.48	200.48	0.00	0.00
Spain	166.64	166.64	166.64	0.00	0.00
Sweden	10.36	10.36	10.36	0.00	0.00
Switzerland	2.00	2.00	2.00	0.00	0.00
UK	7.46	7.46	7.46	0.00	0.00

## Gilts firm

Sterling denominated interest rate contracts closed on a firm note on the London International Financial Futures Exchange yesterday. March delivery gilts opened firm at 104.03, but this proved to be the low of the day, and the contract finished only slightly below its peak at 105.02, compared with 103.26 previously. The very firm tone was encouraged by strong demand for gilts in the cash market, where good overseas buying was seen, as well as institutional support. A much better performance by the pound on the foreign exchanges so far this week, and particularly yesterday, helped sentiment.

LONDON			
	Feb 7	Previous	
3-month Eurodollar	104.03	103.26	
6-month Eurodollar	104.03	103.26	
9-month Eurodollar	104.03	103.26	
12-month Eurodollar	104.03	103.26	
15-month Eurodollar	104.03	103.26	
18-month Eurodollar	104.03	103.26	
21-month Eurodollar	104.03	103.26	
24-month Eurodollar	104.03	103.26	
27-month Eurodollar	104.03	103.26	
30-month Eurodollar	104.03	103.26	

THREE-MONTH STERLING			
	Feb 7	Previous	
March	104.03	103.26	
June	104.03	103.26	
September	104.03	103.26	
December	104.03	103.26	
March 1986	104.03	103.26	
June 1986	104.03	103.26	
September 1986	104.03	103.26	
December 1986	104.03	103.26	
March 1987	104.03	103.26	

U.S. TREASURY BONDS			
	Feb 7	Previous	
3-month	104.03	103.26	
6-month	104.03	103.26	
9-month	104.03	103.26	
12-month	104.03	103.26	
15-month	104.03	103.26	
18-month	104.03	103.26	
21-month	104.03	103.26	
24-month	104.03	103.26	
27-month	104.03	103.26	
30-month	104.03	103.26	

U.S. TREASURY BILLS			
	Feb 7	Previous	
3-month	104.03	103.26	
6-month	104.03	103.26	
9-month	104.03	103.26	
12-month	104.03	103.26	
15-month	104.03	103.26	
18-month	104.03	103.26	
21-month	104.03	103.26	
24-month	104.03	103.26	
27-month	104.03	103.26	
30-month	104.03	103.26	

U.S. TREASURY NOTES			
	Feb 7	Previous	
3-month	104.03	103.26	
6-month	104.03	103.26	
9-month	104.03	103.26	
12-month	104.03	103.26	
15-month	104.03	103.26	
18-month	104.03	103.26	
21-month	104.03	103.26	
24-month	104.03	103.26	
27-month	104.03	103.26	
30-month	104.03	103.26	

U.S. TREASURY DEBENTURES			
	Feb 7	Previous	
3-month	104.03	103.26	
6-month	104.03	103.26	
9-month	104.03	103.26	
12-month	104.03	103.26	
15-month	104.03	103.26	
18-month	104.03	103.26	
21-month	104.03	103.26	
24-month	104.03	103.26	
27-month	104.03	103.26	
30-month	104.03	103.26	

U.S. TREASURY STRIPS			
	Feb 7	Previous	
3-month	104.03	103.26	
6-month	104.03	103.26	
9-month	104.03	103.26	
12-month	104.03	103.26	
15-month	104.03	103.26	
18-month	104.03	103.26	
21-month	104.03	103.26	
24-month	104.03	103.26	
27-month	104.03	103.26	
30-month	104.03	103.26	

France	Marka
France	Franc
Fr. C'co in Af	D.F.A. Franc
Fr. Guin	D.F.G. Franc
Fr. P. in Id.	D.F.P. Franc
Gabon	D.F.A. Franc
Gambia	Dalasi
Germany (E)	Deutsche M.
Germany (W)	Mark
Ghana	Cedi (¢)
Gibraltar	Pound
Greece	Drachma
Greenland	Dan. Krone



## CAPITAL MARKETS

## New issue flood becomes a trickle as buyers retreat

EBSF Bank bond averages		
Feb 7		Excludes
101.448		101.432
High	100.475	
103.042		99.000

comes on offer.

Nearly all the recent fixed-rate issues are trading outside their total fees, but even so there is little demand. On average, prices fell by 4 point.

Daiwa Earsse was the only issuer in the "young" category to launch a seven-year \$50m issue for Nippon-Shinpan, the Japanese consumer credit company, which has an 11 per cent coupon and

D-Mark bonds were also hit as the dollar reached a 15-year high. Prices fell by 4 1/2 point of many trading quid. There too, however, the market was not uniform.

"It was not all gloom in the Japanese foreign-bond market, though some issuer fell by 4 point or, others improved - Credit state, 6 1/2 per cent last summer, for example, rose 1 1/2 point to

Daikwa also had a \$50m convertible issue for Taiyo Yuden, with a 15-year life. The indicated coupon is 3% per cent.

Three more floating-rate issues, totalling \$240m, were called yesterday by Denmark, Creditanstalt and Banque Nationale de Paris. All paid higher interest rates than borrow-

The spurt in the U.S. dollar has hit other currency bond markets. Yen bonds have fallen in the domestic and Eurobond market, as dealers fear a rise in Yen interest rates to defend the exchange rate. Nikko Securities has postponed the Euroyen issue it was planning for British

	WEEKLY U.S. BOND YIELDS (%)			
	Feb 6	Jan 30	High	Low
Composite Corp. AA	11.98	11.78	14.28	11.98
Government				
Long-term	11.27	11.04	13.60	11.10
Intermediate	11.23	10.89	13.70	11.32

Short-term	10.16	9.96	13.23	10.02
Municipal	9.32	9.05	11.74	9.59
Industrials AAA	11.45	11.18	12.68	11.41
Industrials AA	11.57	11.52	14.73	11.50
Utilities AA	12.04	11.81	14.45	12.01
Preferred Stocks	10.57	10.90	12.17	11.03

Source: Standard & Poor's

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT

**IN LONDON**

PORTUGAL has selected a group of six international banks to lead a \$500m, eight-year credit facility in the Euromarkets, expected to be the republic's only large borrowing term note facilities, which are formally reserved for only the very best-rated credits.

Bankers said last night that Portugal has opted for a cautious

The deal, the terms of which were agreed in Lisbon last night, is to include a \$250m facility under which Portugal can raise money through the sale of short-term Euronotes denominated in dollars or European Currency Units or by calling for short term advances from participating banks. These may be in dol-

The remaining \$350m will be raised in the form of a conventional credit bearing interest at a margin of ½ per cent over Eurocurrency rates and with repayments beginning in 1990.

Details of the deal had been keenly awaited in the Euromarket, where Portugal is regarded as something of a test case for short-

Stock	Sales (thous.)	High	Low	Last	Chg.	Stock	Sales (thous.)	High	Low	Last	Chg.
Avoyard	9	29 1/2	28	29 1/2		Timex	67	3 1/2	3 1/4	3 1/2	
Seaboard	.05	1 1/3	4 1/4	4 1/4	+ 1/4	Yardley	47 1/2	7 1/4	7 1/4	7 1/4	
SubIn	1.68	37	40	40		TribCo	518	2 1/2	2 1/2	2 1/2	
SubIn	.05	342	7	4	8	TribCo	58	2 1/2	2 1/2	2 1/2	
SubS	1.92	52	45 1/2	45 1/2							

[illegible][illegible]

Synbio	25	21 $\frac{1}{2}$	21	21 $\frac{1}{2}$		Unidom	34	37	32	31	31	31	31
Synco	6	6 $\frac{1}{2}$	6 $\frac{1}{2}$	6 $\frac{1}{2}$	+	Unifac	9	9	9	9	9	9	9
Synco	100	114	114	114	+	Unifac	43	43	43	43	43	43	43
Synco	86	84	84	84	+	Unifac	288	288	288	288	288	288	288
Synco	112	21 $\frac{1}{2}$	21 $\frac{1}{2}$	21 $\frac{1}{2}$		Unifac	71	71	71	71	71	71	71
T-1													
JBC	280	13	13	13		Unifac	200	200	200	200	200	200	200
TOA Co.	16	17	17 $\frac{1}{2}$	17 $\frac{1}{2}$		Unifac	149	149	149	149	149	149	149
TLS	1	6 $\frac{1}{2}$	6 $\frac{1}{2}$	6 $\frac{1}{2}$	+	Unifac	149	149	149	149	149	149	149

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Team	200	150	100	50	0	50	100	150	200
Team	225	14	1	7-16	14				
Team	130	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				
Team	44	135	135	14	14				
Team	7	135	135	14	14				

France	964	134	134	134	+	
Treble	744	105	105	105	+	
Library	9-1	7-10	7-10	7-10	+	
Totals	128	134	134	134	-	
Yokohama	128	105	105	105	-	
Treble	81	105	105	105	-	
Totals	124	81	105	105	-	

ValueBd 81 105 105 105

We regret that due to communications problems the listing is incomplete.

**WORLD VALUE OF THE POUND**  
every Tuesday in the Financial Times

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Stock	Sales (Hnds)	High	Low	Last	Chg	Stock	Sales (Hnds)	High	Low	Last	Chg
Genluc	38	2	2	2		InCapE	80	3 1/4	3	3 1/4	+ 1/4
Gulf	150	1 1/2	1 1/4	1 1/4	- 1/4	InCapM	412	17	16	16 1/2	- 1/2
						Wagne	552	17 1/2	16 1/2	17 1/2	+ 1/2

[illegible]

ers fear a rise in Yen interest rates to defend the exchange rate. Nikko Securities has postponed the Euroyen issue it was planning for British Breweries has been set at a maximum amount of NZ\$50m each tranche is NZ\$25m - Banque Gutzwiller, King, Bonn

++	Swan	35	204	15	20	++
++	Swan	36	119	56	56	++
++	Swan	37	949	75	75	++
++	Swan	38	205	17	17	++
++	Swan	39	17	17	17	++
++	Swan	40	16	16	16	++
++	Swan	41	16	16	16	++
++	Swan	42	16	16	16	++
++	Swan	43	16	16	16	++
++	Swan	44	16	16	16	++
++	Swan	45	16	16	16	++
++	Swan	46	16	16	16	++
++	Swan	47	16	16	16	++
++	Swan	48	16	16	16	++
++	Swan	49	16	16	16	++
++	Swan	50	16	16	16	++
++	Swan	51	16	16	16	++
++	Swan	52	16	16	16	++
++	Swan	53	16	16	16	++
++	Swan	54	16	16	16	++
++	Swan	55	16	16	16	++
++	Swan	56	16	16	16	++
++	Swan	57	16	16	16	++
++	Swan	58	16	16	16	++
++	Swan	59	16	16	16	++
++	Swan	60	16	16	16	++
++	Swan	61	16	16	16	++
++	Swan	62	16	16	16	++
++	Swan	63	16	16	16	++
++	Swan	64	16	16	16	++
++	Swan	65	16	16	16	++
++	Swan	66	16	16	16	++
++	Swan	67	16	16	16	++
++	Swan	68	16	16	16	++
++	Swan	69	16	16	16	++
++	Swan	70	16	16	16	++
++	Swan	71	16	16	16	++
++	Swan	72	16	16	16	++
++	Swan	73	16	16	16	++
++	Swan	74	16	16	16	++
++	Swan	75	16	16	16	++
++	Swan	76	16	16	16	++
++	Swan	77	16	16	16	++
++	Swan	78	16	16	16	++
++	Swan	79	16	16	16	++
++	Swan	80	16	16	16	++
++	Swan	81	16	16	16	++
++	Swan	82	16	16	16	++
++	Swan	83	16	16	16	++
++	Swan	84	16	16	16	++
++	Swan	85	16	16	16	++
++	Swan	86	16	16	16	++
++	Swan	87	16	16	16	++
++	Swan	88	16	16	16	++
++	Swan	89	16	16	16	++
++	Swan	90	16	16	16	++
++	Swan	91	16	16	16	++
++	Swan	92	16	16	16	++
++	Swan	93	16	16	16	++
++	Swan	94	16	16	16	++
++	Swan	95	16	16	16	++
++	Swan	96	16	16	16	++
++	Swan	97	16	16	16	++
++	Swan	98	16	16	16	++
++	Swan	99	16	16	16	++
++	Swan	100	16	16	16	++

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